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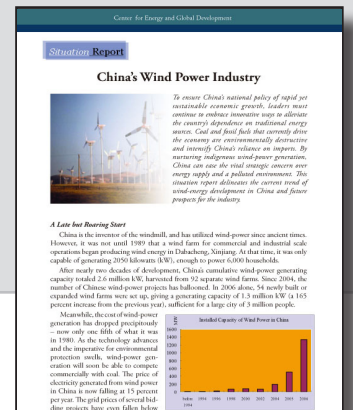
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# Debating the International Currency System: What's in a Speech?

*Gregory Chin & Wang Yong*

**T**he global economic crisis has ignited concerns about the functioning of the international currency system (ICS). Inside China, attention has focused on the inherent weaknesses of the current hybrid system, in which the dominant country reserve currency issuer, the United States, runs fiscal and external deficits, and there is no effective mechanism for bringing about adjustments between reserve-issuing and surplus countries. Concern is also growing over the future of the dollar. The Chinese government, exporters and individual investors are asking “Where next?” for the dollar. The value of China’s massive foreign exchange reserves, the fortunes of Chinese exporters and the flows of hot money into the country are all shaped by the

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USD/RMB exchange rate and the international currency system. China has a greater stake in the dollar system than many other countries because of its massive foreign currency reserve and heavy reliance on trade-related growth. China has found itself constrained by the enduring systemic power of the United States and the centrality of the dollar in the international monetary system.<sup>1</sup>

It was therefore a game-changing moment when, in the lead up to the G20 London Summit, the Chinese government issued a speech by respected central bank Governor Zhou Xiaochuan, entitled “Reflections on Reforming the International Monetary System”.<sup>2</sup> In the speech, Governor Zhou asked what “kind of international reserve currency we need to secure global financial stability and facilitate world economic growth,” and answered that the world needs an international currency option “that is disconnected to individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies.” The main message is that it is in the world’s interest to reform the international monetary system, namely by strengthening and expanding the role of the International Monetary Fund (IMF)’s “Special Drawing Rights” (SDRs) as a multilateral reserve currency option.

Some analysts have suggested that the governor’s speech was important because it marks the first time the Chinese leadership has publicly issued such a high-profile statement of concern about the ICS. However, even more significant, the speech is the first public indication that China is seriously reconsidering its reliance on the dollar and is beginning to cultivate options for reducing its international monetary

### THE SPECIAL DRAWING RIGHT AND THE IMF

The Special Drawing Right (SDR) is a special monetary unit created by the IMF in 1969 to supplement its member countries’ official monetary reserves. It is used to allow countries to participate in foreign trade without affecting their exchange rates. SDRs are based on a basket of international currencies comprising the US dollar, Japanese yen, euro and pound sterling.

The SDR is itself not a currency, but holders of SDRs can obtain currencies of IMF members in exchange for their SDRs. In addition to this role, the SDR serves as the unit of account of the IMF and some other international organizations. It can be held and used by member countries, the IMF and certain designated official entities.

The IMF allocates SDRs to all its members

in proportion to certain quotas. In 2009, the IMF increased general SDR allocation to US\$250 billion, with low-income countries accounting for over \$18 billion, while emerging market economies and developing countries as a group accounted for another \$100 billion of the total.

An SDR allocation is a low cost way of adding to members’ international reserves, allowing them to reduce their reliance on more expensive domestic or external debt for building reserves. Yet the need for SDRs has lessened since the Bretton Woods system’s collapse, the consequential shift to a floating exchange rate regime and the growth in international capital markets.

dependence on the United States. This is not to suggest that it is ready to act fully on this thinking, nor has it already worked out the risk mitigation strategies for dealing with the potential consequences of such a shift. Yet the speech is more than simply a “shot across the bow” of the “US ship of state” to send the message that China is “knocking at the G7 door” and “wants in” so that it can play a greater role within the existing global economic architecture.<sup>3</sup> Instead, it indicates that Chinese strategists are thinking about international currency options that are beyond the dollar as the preeminent world currency.

The speech is important for a second reason. Inside China, the publication of Zhou’s speech and related statements from the senior Chinese leadership—such as President Hu Jintao, Premier Wen Jiabao and Vice Premier Wang Qishan—unleashed a torrent of debate on how best to implement the basic ideas on global currency reform contained in the governor’s speech, as the speech itself was short on concrete details of implementation. It has spurred related discussion on the root causes of the current macro imbalances, remedial options and discussion of broader themes such as Chinese currency internationalization, regional financial and monetary cooperation in East Asia, financial collaboration between China and other emerging and developing countries, and the future of US dollar hegemony.<sup>4</sup>

The domestic Chinese debates offer a sense of the evolving parameters within which policymakers are operating.<sup>5</sup> Furthermore, public opinion is starting to play a greater role in shaping government policy on international money. What the public debate suggests is that Chinese strategists would like to see the international community work toward reforming the ICS and bring about changes that would entail a gradual shift from the dollar system to a “multi-polar global currency system”. They see such evolution as necessary for reducing the high level of risk that the non-reserve currency issuing countries currently bear within the dollar system when they have to hold another country’s currency in reserve and yet have no direct control over its supply. However, what is unclear is the level of priority that Chinese leaders actually attach to the multilateral diversification option (SDRs) versus the bilateral option (RMB internationalization). What is clear from the public commentary thus far is that there is general sentiment in China that the leadership should not excessively antagonize the United States in advocating for a shift in the ICS. Moreover, as far as we can see, the Chinese public debate has not advanced to the stage where detailed and concrete plans are being formulated to meet the global leadership and international coordination needs for managing what would likely be a more fractured ICS.

### RECASTING THE PROBLEM

Much of the trans-Atlantic talk about currency within the global crisis has been about misaligned exchange rates and the need to correct the trade and financial imbalances between China and its major export markets, particularly the United States. By contrast, China is advancing a systemic conception of the cause of the world’s

current economic problems. For China's leading policy strategists on international monetary affairs, the financial crisis has laid bare the defects of the existing international currency system, and they suggest that the world should look to diversify beyond the US dollar system. Prior to the G8 Summit in Italy in July 2009, Li Ruogu, Chairman and President of China Export-Import Bank<sup>6</sup> and former central bank vice governor, stated that the financial crisis "let us clearly see how unreasonable the current international monetary system is."<sup>7</sup>

Although the recent financial crisis brought China's criticism of the ICS to a head, the disaffection of Chinese officials with the system predates the current troubles. As early as 2003, then Vice Governor of the central bank Li Ruogu, represented the Chinese government at the spring meeting of the International Monetary and Financial Committee and called on the IMF to "tighten its surveillance of the macroeconomic and financial policies of the major industrial countries."<sup>8</sup> At that time, when China's foreign currency reserves were only starting on their dramatic rise, Chinese authorities were already weighing in on the theme of growing global imbalances, emphasizing that overcoming the problem of imbalances required the establishment of a new equitable and reasonable economic and financial order. The vice governor's speech called on the IMF to examine the flaws in the existing international monetary system and gradually establish a new system that more fully reflected the interests of developing countries, while providing institutional safeguards for the sustainable growth of the global economy. At the same presentation, Li also called on the IMF to "actively promote the general allocation of SDRs; in particular that the IMF needed to complete the special one-time allocation of SDRs as soon as possible in order to strengthen the capacity of member countries to withstand crises."<sup>9</sup> Chinese concerns

#### THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

The International Monetary and Financial Committee (IMFC) is responsible for advising and reporting to the Board of Governors of the IMF as it manages and shapes the international monetary and financial system. It also monitors developments in global liquidity and the transfer of resources to developing countries, considers proposals by the Executive Board to amend the Articles of Agreement and deals with unfolding events that may disrupt the global financial system.

The IMFC usually meets twice a year, in September or October before the Bank-Fund Annual Meetings and the Spring Meetings held in March or April. The Committee dis-

cusses matters of concern affecting the global economy and also advises the IMF on the direction of its work. At the end of the meetings, the Committee issues a joint communiqué summarizing its views. These communiqués provide guidance for the IMF's work program during the six months leading up to the next Spring or Annual Meetings.

The IMFC's members are governors of the Fund, ministers or others of comparable rank, and the membership reflects the composition of the IMF's Executive Board. A number of international institutions, including the World Bank, participate as observers in the IMFC's meetings.

about the “irrationalities” of the dollar-centered ICS, and their globally destabilizing effects, thus predate the current crisis and have grown henceforth.<sup>10</sup>

Therefore, amidst the current global crisis, it should not have come as a surprise that People’s Bank of China Governor Zhou Xiaochuan’s speech on reforming the international monetary system focused on the Triffin Dilemma—the root cause of the crisis, according to many Chinese economic policymakers and academics. The governor’s reading of Triffin, as well as that of policy advisors in the Chinese academy, is that when the currency of a single nation is used as the global reserve currency—as is the case with the US dollar—the currency issuing country faces the dilemma of making decisions on domestic monetary policy that serve national interests but which may not contribute to global economic wellbeing.<sup>11</sup> Accordingly, Chinese view these “externalities” as a key contributor to excess liquidity throughout the world, which resulted in overly relaxed US monetary policy and ultimately the subprime crisis in the United States. Excess global liquidity pushed down interest rates in US financial markets over the long-term, which in turn resulted in the real estate and derivatives bubbles. According to Zhou, “Although crisis may not necessarily be an intended result of the issuing authorities, it is an inevitable outcome of the institutional flaws.” The view is that, whereas the Gold Standard System had an inherent tendency to cause deflationary pressure, the “Dollar Standard System” has a tendency to cause imbalances and it lacks an effective adjustment mechanism. Wang Jianye, chief economist of China ExIm Bank and a former senior economist at the IMF, suggests that the “institutional drawbacks” of the existing ICS have been “a contributing factor” to the global crisis.<sup>12</sup>

Chinese analysts trace the root causes of the current crisis, as well as the related global imbalances and exchange rate challenges, to the dismantling of the Bretton Woods dollar-gold system in the early 1970s, and the transition to a “US Dollar System” that came after the August 1971 Nixon shock, and formally with the Jamaica Accord.<sup>13</sup> Unlike many Western observers, they do not see the source of current global macro problems in misaligned exchange rates. Accordingly, the problem of global financial and trade imbalances is not about an “artificially low” Chinese currency, which in turn has resulted in huge trade surpluses for China vis-à-vis the United States and the European Union; these outcomes are seen as effects, rather than causes. They may worsen existing systemic deficiencies, but Chinese analysts argue that the root of the current global problems is in the break from the previous Bretton Woods system, which had provided relatively stable exchange rates until the early 1970s. The current ICS is said to have allowed the United States to run consistent current account deficits, which in turn have led to its rising levels of external debt. Persistent net external debt eventually led to pressure on the US currency to depreciate. In turn, the depreciating global currency has “wreaked havoc” on the international monetary and trading systems. Chinese policy analysts also note that the system suffers from the lack of a “supra-national institution” that can effectively evaluate sustainable debt levels for the major currency-issuing countries and enforce

macro-policy changes when such transgressions have occurred. The IMF can only exert such surveillance and influence changes in countries that borrow from The Fund. It has not been able to do so over, for example, the issuer of the dollar.<sup>14</sup>

Zhang Ming, director of the International Financial Research Institute in the influential Chinese Academy of Social Sciences, suggests that one of the most important differences with previous ICSs (i.e. the Gold Standard System and the Bretton Woods system) is that the dollar system suffers from an inherent systemic gap: there is no effective multilateralized check-and-balance mechanism to provide adequate international governance over the supply of key currencies.<sup>15</sup> Under the Bretton Woods

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*Chinese analysts trace the cause of the crisis to the dismantling of the Bretton Woods system.*

System the limit on dollar issuance was the dollar's peg to gold, and the threat that if the United States exceeded dollar-gold issuance limits, then other states could march on the US Federal Reserve to exchange their dollars for gold. A number of Chinese analysts believe that this disciplining measure on US money issuance was eliminated with the end of the dollar-gold peg and the shift to the current US dollar-centered ICS.<sup>16</sup> Excess liquidity in the

international monetary system has thus led to a situation where boom-bust cycles in asset prices have become the systemic norm. Chinese commentators further believe that world developments have eclipsed the other global governance mechanism that was created to help address these global macro-coordination challenges: the G7/8. The consensus view is that shifts in the world economy, related to the rise of the major emerging economies, have left the "Club of Rich Countries" both ineffective and lacking legitimacy.<sup>17</sup> Wang Jianye, the chief economist of China ExIm Bank, notes that the existing ICS is "out-of-date", as it does not adequately reflect the profound changes in the world economy of recent years and is simply no longer workable.<sup>18</sup> Wang highlights that interventions from the G7 or G3 central banks were enough to move the key reserve currency exchange rates to facilitate international adjustment in the 1970s and 1980s, but this is no longer the case.

Chinese analysts note that problems of global financial and trade imbalances have been recurrent challenges since the shift to the dollar system and have merely worsened since the late 1990s rather than being a new phenomenon caused by China. Both Germany and Japan have run major surpluses vis-à-vis the United States and have also had to deal with American pressure to revalue their currencies throughout the era of the dollar system. China is now only the latest target. What has turned into "normalized" behavior for the United States—i.e. running consistent current account deficits—has finally led to unmanageable external debt. Yu Yongding, a former member of the Monetary Affairs Committee of China's central bank and one of the country's most influential economists, suggests that the inherent flaws in the dollar system are easy to miss because the importance of dollar assets in the investment portfolio of international investors has meant that foreign exchange funds have flowed back into the United States through purchases of US dollar-denomi-



nated financial products. This systemic tendency has allowed the United States to delay or deflect the necessary domestic adjustments to address its current account imbalance.<sup>19</sup> The difference now is that the subprime crisis has dampened investor confidence in US financial products, and the US government's bailouts have triggered investor concern about medium to long-term dollar depreciation.

### GOING MULTILATERAL

While many international observers see fixing the global imbalances as the priority amid the crisis, what does Beijing see as pivotal? As immediate near-term measures, Governor Zhou's speech calls on the key reserve currency-issuing countries to take into account the global effects of their monetary decisions and not to worsen the current crisis. China is urging the IMF to not only accelerate its own internal governance reforms (e.g. changes in voting shares to reflect changes in the international balance of economic power), but to also take on greater responsibilities in crisis prevention and resolution, especially—and inescapably—ensuring that the fiscal and monetary policies of the key reserve currency countries are “responsible” and do not lead to “unsustainable financial imbalances”.<sup>20</sup> This means strengthening IMF surveillance of the macroeconomic policy of all the leading economies, particularly the United States.

Zhou's March 2009 speech, issued amid a global crisis, also elevated the internal Chinese policy debate on medium-term global reform options by laying out some technical options for reforming the international monetary system, especially *multilateralized* reserve currency options. To mitigate the effects of the Triffin Dilemma and reduce the world economy's—and thereby China's—dependence on the US dollar as the global reserve currency, Zhou suggested that it would be beneficial to expand the issue scale and circulation scope of the IMF's SDRs over the medium term. The President of China Export-Import Bank and former PBOC Vice Governor, Li Ruogu, explains: it may “be feasible to reform the existing SDR into a payment currency in a real sense and further to substitute the dollar-denominated currency by a ‘basket of currencies’ commonly accepted by all countries. To be more specific, a *new Bretton Woods System* focusing on a ‘basket of currencies’ should be established.”<sup>21</sup> He adds, “Of course, we need to discuss the selection of that basket of currencies by taking account of such factors as a country's GDP, trade volume, reserves, population and share in the world market.”<sup>22</sup> The medium-term goal of the Chinese proposal is about reforming the ICS, in which a core component is rethinking the selection of standard currency for international reserves.

The governor's speech was short on details on how best or exactly to implement the SDR proposals. Chinese authorities have been cautious in public about discussing the implications of the governor's SDR proposal for the Chinese currency itself—specifically, whether China's Renminbi will be included in the SDR currency basket—and they continue to weigh the potential risks of including China's RMB in such a move.<sup>23</sup> However, some scholars have run ahead of the official position,

outlining proposals that go beyond the official statements from current PBOC Vice Governor Yi Gang that, “it is possible that the global financial crisis will facilitate the process of making the yuan internationally accepted, but there is no need to push for that.”<sup>24</sup> Zhang Ming of CASS, for example, advocates for a greater international role for the RMB, in helping to expand the role of the SDR as a reserve currency. Zhang believes that the SDR currency basket should be expanded to include currencies of the major emerging economies, led by the RMB.<sup>25</sup>

Zhang offers three additional SDR expansion measures: to encourage the use of the SDR for pricing international trade transactions, commodities, investment and corporate accounting, and include consideration of the SDR in calculating the market value of a country’s foreign exchange reserves; to expand the use of the SDR in global trade and investment, by extending its use beyond the settlements of governments and the major international organizations, to private sector and corporate cross-border settlements; and to launch SDR-denominated financial assets in order to promote the attractiveness of the SDR as a reserve currency, with the IMF issuing bonds for using SDR as a pricing medium, and establishing open-ended funds that use the SDR as a pricing tool.<sup>26</sup> Furthermore, Zhang suggests that a more equitable distribution of SDRs is needed so that the countries that really need crisis liquidity support can actually access the SDRs.<sup>27</sup> This suggestion converges with the desires of developing countries (some since the 1960s) to focus attention on the inequality in the method of SDR allocations. Some developing countries have actually been disappointed that Chinese authorities have not pushed harder on this front in the current moment.<sup>28</sup>

Other Chinese economists, while generally favoring the SDR proposal, are more skeptical about its real world application. For example, Lu Qianjin, an expert at Fudan University and regular commentator in the Shanghai media, cautioned that “the world is still far away from departing from the Dollar Standard System, mainly because of the enduring strength of the US economy, the higher risk in non-dollar-denominated investments, and even the opposition of the creditor nations themselves to US dollar depreciation.”<sup>29</sup> Li Ruogu similarly notes that despite the “irrationalities” of the current dollar-centered IMS, “...it would be difficult to find and implement a feasible replacement plan in the short term, so we will still have to travel a relatively long road for reform of the international monetary system.”<sup>30</sup>

Others, such as Huang Xiaopeng, an editor of *Securities Times* newspaper, note that it is unlikely that the United States will want to see a dilution of its monetary power and would likely resist attempts to strengthen the role of SDRs.<sup>31</sup> What these measured quasi-official and academic views show is that the Chinese debate on international money and ICS options is underpinned by a strong dose of realpolitik. Chinese strategists realize that uptake on the governor’s SDR proposals will depend not only on their functional usefulness, but will also require a large measure of geopolitical persuasion to bring the multilateral reserve currency option into being. Beijing is wary of engaging in such arm-twisting at this stage as it would risk provoking the United States.

## STRATEGIC BALANCING

Zhou's March 2009 speech, issued amid the most severe global financial crisis since the Great Depression, galvanized international attention.<sup>32</sup> The speech was followed by a well-timed "op ed" article, ostensibly authored by Vice Premier Wang Qishan, that was printed in *The Times* (London) the week before the London G20. These statements from two of China's most senior and influential economic officials could be interpreted as signaling a more confident and forceful China, which has been emboldened by its performance amid the global downturn, and is no longer willing to stand back from the global spotlight and limit itself to expressing its concerns behind closed doors.<sup>33</sup>

Zhou's speech indirectly put the new US administration on the defensive about its future currency intentions and global macro-coordination priorities. After the release of Zhou's speech, the White House press corps pressed the newly inaugurated president at his March 24, 2009 speech on the state of the US economy, noting that "the Chinese publicly expressed interest in an international currency" and weak confidence in the value and reliability of the US dollar. President Obama had to defend the US currency, and stated: "I don't believe that there's a need for a global currency."<sup>34</sup> He added, "As far as confidence in the US economy or the dollar, I would just point out that the dollar is extraordinarily strong right now. The reason the dollar is strong right now is

because investors consider the United States the strongest economy in the world with the most stable political system in the world." A day later, however, US Treasury Secretary Timothy Geithner gave a slightly different answer, and sent the dollar tumbling, only to drive it back up by affirming that it should remain the world's reserve currency.<sup>35</sup> Geithner was asked at an event in New York about Governor Zhou's call for international currency reforms. He said that while he had not read the proposal, that Governor Zhou is a very thoughtful person, and Geithner anticipated that the plan was "designed to increase the use of the IMF's special drawing rights. And we're actually quite open to that." For the new administration and currency traders, the episode highlighted investors' sensitivity to any perceived weakened confidence in the dollar, as investors see power as shifting to a wider group of developed and emerging nations. For instance, the dollar slid as much as 1.3 percent against the euro within 10 minutes of news accounts of Geithner's remarks. It recouped much of the loss about 15 minutes later, when Geithner then predicted no change in the US currency's role.<sup>36</sup> Citicorps' global head of foreign exchange and local markets strategy, James McCormick, emphasized that it was "important" that Governor Zhou's proposal came in the run-up to the London G20, because the contagion effects of the speech had sent the message to the US administration about the growing relative importance of the G20 versus the G7. He added, "We will feel that [shift in global power to a wider group] and see that [global power shift] for some time to come."<sup>37</sup>

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*Zhou's speech indirectly put the United States on the defensive about its future currency intentions.*

At a level of deeper motivations, Beijing's SDR proposal has been moved by concern about its massive dollar holdings. A sense of vulnerability underlies Zhou's criticism of the dollar-centered monetary system and the proposal for strengthening SDRs. This combination of strength and vulnerability is captured in the observation by Chinese analysts that the governor's super-currency remarks were not meant to signal that China wanted its own currency to supplant the US dollar; the intention was to register China's "unease" about US monetary policy.<sup>38</sup> The speech gave Beijing and the major emerging economies an opening to press on the issues of international money and exchange rate stability at the London G20 negotiations (April 2009), and at follow-up G20/G8 summits in L'Aquila (July 2009) and Pittsburgh (September 2009).<sup>39</sup> International commentators focused on how China and the emerging economies had shifted international attention onto the destabilizing effects of loose US monetary policy, and how they effectively prevented Washington from hammering on the view that China and other surplus countries should bear the burden of adjustment in addressing global financial and trade imbalances.<sup>40</sup> However, equally important was how the BRICs grouping was able to secure agreement at the London G20 that the IMF's SDR funds would be replenished and significantly increased, and made available to countries in need without the traditional IMF conditionality of the 1990s.<sup>41</sup> These gains set the groundwork for further multilateral cooperation in the lead up to the Pittsburgh G20. The key breakthrough was that the United States and China reached accommodation on how to address the imbalances in their economic relations—i.e. America needs to increase its savings rate, and that the Chinese government would take the necessary measures, including a major domestic stimulus package to increase domestic consumption in China. In return, Beijing gave its support to achieving "balanced and sustainable" global growth as a priority in the agenda of the G20, and to including this wording in the official communiqué of the Pittsburgh summit.

Despite the diplomatic gains that were achieved after the publication of Zhou's speech, Chinese strategists are under no illusion that just because the dollar may be weakened, and some progress has been made in resuscitating the multilateral currency option, that this can be equated with a situation where another currency is ready to replace the dollar as the preeminent global reserve currency. They note that even if the transition from the dollar system begins immediately, it would be a while before a super-sovereign reserve currency were in a position to replace the dollar. For example, Huang Yiping, professor at the highly regarded China Center for Economic Research at Peking University, notes that although the subprime crisis has weakened confidence in the dollar, most of the rival currencies that are already established as reserve currencies, such as the yen and pound, have also been weakened by the fallout from the current global crisis.<sup>42</sup> The euro is the exception, but Chinese commentators see the euro as a balancing option rather than a real alternative as the predominant reserve currency. They are skeptical that the euro will be a long-run challenger to the dollar. Most important, Chinese commentators emphasize that resistance from the United States to any substantial efforts to deepen and expand the

use of SDRs should not be underestimated. The working assumption is that although the so-called hegemonic position of the US dollar is weakening, the dollar will probably continue to play a predominant role, and the shift to a multi-currency system is still far away.

Based on their awareness of the likely resistance from the US to multilateralized currency diversification, Chinese authorities have made sure to also give themselves a unilateral or bilateral option via internationalizing the use of the Chinese currency for traders and investors. The internationalization of the RMB is the other risk mitigation measure that China is now pursuing to reduce its excessive reliance on the dollar. A series of incremental steps have been taken to gradually increase the use of the RMB as an international currency, including: 1) currency swap agreements worth US\$95 billion with Indonesia, South Korea, Hong Kong, Malaysia, Belarus, and Argentina; 2) agreements with Brazil and Russia to encourage trade settlement in each other's currencies; 3) "settlement trials" to allow a group of export firms in the trade-heavy Guangdong and Shanghai areas to settle their trade in RMB; 4) a "net settlement system" to increase liquidity and trading volume in the domestic inter-bank currency market; and 5) for select Hong Kong banks and Chinese banks based in Hong Kong to issue RMB-denominated bonds.<sup>43</sup> For RMB internationalization to advance, China will need to loosen the band for its managed floating exchange rate and gradually allow for a greater range of currency convertibility (capital account).

What is not clear in the Chinese debates—at least in the public domain—is the exact mix of the multilateral versus bilateral currency diversification options. These two tracks together constitute China's gradual de-dollarization strategy. What is noticeable is that there has been little public debate on the multilateral SDR option inside the Chinese media since late 2009, and attention has largely shifted solely onto RMB internationalization.<sup>44</sup> This could suggest that the SDR proposal was mainly a short-term diplomatic maneuver used to gain leverage at the G20 and G8 leaders' summits, and that Beijing has now dropped it after largely achieving the intended tactical results. Equally possible is that Chinese authorities have tracked the response of the United States and its G7 allies to the Chinese SDR proposal and have decided that, since the IMF has already instituted some SDR expansion measures following the London G20, it makes sense to lay-off further agitating the United States and its G7 allies on SDRs at this time. If the latter is the case, it would be rational for China to put more emphasis into pursuing the unilateral/bilateral diversification option of RMB internationalization—an option that China can control more directly by tying economic or political inducements to its persuasion of other countries, foreign traders or investors to use the RMB.

### THE LONG GAME

Although the release of Zhou's speech before the London G20 did bring short-term benefits to China in terms of strengthening its bargaining hand at the G20 and G8 leaders' summits from April to September 2009, it is important to recognize that

the governor's speech is more than maneuvering. The Chinese SDR proposals embody part of China's medium to long-term strategy to gradually move toward reforming the ICS. It is also important to recognize that the Chinese calls for putting more emphasis on SDRs predate the onset of the current global crisis.<sup>45</sup> At the same time, the crisis has brought the Chinese authorities to the point of calling for a broader role for SDRs as a global reserve currency option. Moreover, as confidence in the value and reliability in the dollar has weakened among the BRICs,<sup>46</sup> these countries have gravitated toward SDRs as a potential reserve diversification tool that may facilitate de-dollarization while minimizing alarm in currency markets.<sup>47</sup> Beijing realizes that it is not in its interest to take rash actions that could cause a sudden fall in the value of the dollar. The SDR proposal is one experiment in gradual de-dollarization. Despite the initial international pushback on Zhou's ideas, some of the SDR policy proposals are now being implemented,<sup>48</sup> as well as endorsed by some of the world's most prominent economists.<sup>49</sup> It can be said that some practical steps have been taken since the crisis to work toward the goals in the second amendment of the IMF's Articles of Agreement for making the SDR the "principal reserve asset in the international monetary system."

Chinese observers have noted that the current crisis could well turn out to be a watershed event in the primacy of the dollar and the life of the dollar system. Huang Yiping notes that we are now already in a transitional phase where the dollar will not be as dominant coming out the other side of the crisis.<sup>50</sup> The consensus Chinese view is that a multi-reserve currency era is coming, even if only gradually, and that it would be in China's strategic interests to promote such a scenario.<sup>51</sup> The general preference appears to be an ICS that is more decentralized and diffused in terms of the distribution of power among states, where the preeminence and seigniorage privileges enjoyed by the United States are reduced and where "privatized" authority does not play as prominent a role in global economic governance.<sup>52</sup> One vision of such a multi-polar, decentralized and diversified currency system that has been offered by Chinese analysts is the dollar, the euro and a "regional Asian currency" sharing the role of global reserve currency—and together backstopped by SDRs. The view is that a multi-polar reserve currency system could provide the needed competition mechanism to ensure discipline of the key currency issuing countries. If the US issued too much currency, international investors could then shift their holdings (or a portion) to euros or the "Asian yuan".<sup>53</sup>

While some Chinese commentators celebrate the shift to a multi-polar currency system, others recognize that the likely result is a more fractured ICS. For example, Lu Qianjin suggests that the most pragmatic option for China and the world is to move toward a more diversified international monetary system, with more national currencies functioning as reserve, trade settlement and pricing tools. His solution is to "let different currencies compete and balance each other."<sup>54</sup> However, Huang Xiaopeng, the editor at *Securities Times*, warns that "rule-less bilateral or multilateral coordination in monetary relations" is the likely trend for the foreseeable future.<sup>55</sup>

China is in a difficult position; it wants change and yet it craves stability. Managing gradual change for the sake of maintaining stability has been the watchword of the domestic reforms over the past thirty years, but this is more difficult to achieve internationally when there are other powerful actors involved.<sup>56</sup>

What needs more thorough research is how volatile a more “fragmented currency system” may be, and the ways in which the issuing countries can achieve the necessary coordination to provide for some stability in a multi-currency system.<sup>57</sup> Where the Chinese commentary has been especially thin is on the details of the transition mechanism to the multilateral “basket of currencies” system. One transition channel that has been discussed by Chinese experts is for China to work together with other emerging economies and neighboring East Asian countries to promote their currencies in international markets, to balance the influence of the US dollar and speed up the “arrival of a multi-currency order.”<sup>58</sup> But here, the Chinese debates are short on the specifics of how the emerging powers, or BRICs, would work together, or if and when they would cooperate with the traditional financial powers to provide international coordination and shared leadership in a more fractured ICS.

Chinese strategists suggest that the transition to a multipolar reserve currency scenario is in keeping with the overall global shift to a multipolar balance of power. In terms of going “beyond US monetary hegemony” over the longer-term, Chinese officials and policy analysts appear to be seeking a transition to a global monetary system that is based on two principles: “supra-nationality” and “negotiation”. Their preference is for an international currency regime that is based on a balance between a degree of collective adherence to the decisions of a supra-national institutional configuration and a greater degree of shared responsibility and decision-making than currently exists—rather than relying on a self-disciplining regime that is organized around a single state with privileges and responsibilities as the leader. Yin Jianfeng, a CASS financial expert, predicts rather hopefully that such a multi-reserve currency scenario would be more “sustainable” over the long-term.<sup>59</sup> He suggests that one of the (unintended) positive spinoffs from the current financial crisis has been the implementation of better monetary and fiscal policies and improved cooperation among leading countries in the financial sector. Moreover, it can be added that since the global crisis, monetary and financial cooperation in East Asia has reached a new level of multilateralized coordination. However, history also suggests that unless the challenge of leadership over such a more diffused ICS is adequately addressed, then we could be heading toward a period similar to that between the two World Wars, when the British pound sterling was in decline, the dollar on the ascent, and neither was dominant. If this is the case, the outcome could be heightened struggle for leadership over the longer term and a rising tension in international currency affairs. 🌐

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## NOTES

<sup>1</sup> Gregory Chin and Eric Helleiner, "China as a Creditor: Rising Financial Power?" *Journal of International Affairs*, Vol. 62 No. 1 (Fall/Winter 2008), pp. 87-102.

<sup>2</sup> The Chinese and English language versions of the speech can be accessed at the official website of the People's Bank of China: <<http://www.pbc.gov.cn/detail.asp?col=4200&ID=279>> and <<http://www.pbc.gov.cn/english/detail.asp?col=6500&id=178>>.

<sup>3</sup> Dexter Roberts, "China Talks Tough with Call to Dump the Dollar," *Business Week*, March 25, 2009, <[www.businessweek.com/globalbiz/content/mar2009/gb20090325\\_407723.htm](http://www.businessweek.com/globalbiz/content/mar2009/gb20090325_407723.htm)>.

<sup>4</sup> Some of these debates were initially outlined in Gregory Chin and Wang Yong, "China Debates: The Dollar System and Beyond," (Chatham House report on *Remaking the International Monetary System for the 21st Century*, January 2010).

<sup>5</sup> The Chinese policy circle for formulating policy on international monetary affairs is quite tight, including select members of the Monetary Affairs Committee of the central bank, such as Governor Zhou Xiaochuan, Vice Governor Yi Gang and the heads of China's state banks that are involved in trade and concessional financing in the international arena, such as Li Ruogu. The policy-formulation group reports upwards to the Central Financial and Economic Affairs Leading Groups of the State Council and the Chinese Communist Party for overall guidance and policy approval on major decisions. The policy network for implementation options and gathering policy feedback is broader and encompasses influential think tank and academic researchers.

<sup>6</sup> The Export-Import Bank of China is one of the country's three policy banks.

<sup>7</sup> Simon Rabinovitch, "China officials call for displacing dollar, in time," *Reuters*, July 6, 2009, <[www.reuters.com/article/idUSTRE5650WO20090706](http://www.reuters.com/article/idUSTRE5650WO20090706)>.

<sup>8</sup> Li Ruogu, "Statement by the Assistant Governor of the People's Bank of China at the Seventh Meeting of the International Monetary and Financial Committee," April 12, 2003. The IMFC is responsible for advising and reporting to the Board of Governors of the IMF as it manages and shapes the international monetary and financial system. It also monitors developments in global liquidity and the transfer of resources to developing countries, considers proposals by the Executive Board to amend the Articles of Agreement, and deals with unfolding events that may disrupt the global financial system. The IMFC usually meets twice a year, in September or October before the Bank-Fund Annual Meetings and in March or April at what are referred to as the Spring Meetings. The Committee discusses matters of concern affecting the global economy and also advises the IMF on the direction of its work. At the end of the meetings, the Committee issues a joint communiqué summarizing its views. These communiqués provide guidance for the IMF's work program during the six months leading up to the next Spring or Annual Meetings. See: <<http://www.imf.org/external/np/exr/facts/groups.htm#IC>>.

<sup>9</sup> Ibid.

<sup>10</sup> For example see Li Ruogu's remarks at the Lujiazui Forum in Shanghai in summer 2008.

<sup>11</sup> Benjamin Cohen, in his landmark study, suggests that the main dilemma identified by Triffin is actually that an international reserve system based on a national currency cannot simultaneously sustain both growth of reserves and confidence in the currency. Private correspondence, December



2009. See: Robert Triffin, *Gold and the Dollar Crisis* (New Haven: Yale University Press, 1960).

<sup>12</sup> Wang Jianye, "China's Intellectual Contribution to Addressing the 'Once-a-Century' Financial Crisis," *China Daily*, March 25, 2009, <[www.chinadaily.com.cn/bizchina/2009-03/25/content\\_7616815.htm](http://www.chinadaily.com.cn/bizchina/2009-03/25/content_7616815.htm)>.

<sup>13</sup> The "Nixon shock" refers to the jolt to the international monetary arrangements that occurred on Aug. 15, 1971 due to former US President Nixon's declaration of the New Economic Policy of the United States, which suspended the convertibility of officially held dollar liabilities into gold. The "Jamaica Accord" was reached in January 1976 as a result of negotiations between the United States and European countries that started in 1972. The new Article IV of the IMF Agreement was approved by the Board of Governors in April 1976 and ratified by 2/3 of the member states in 1978. The content of the Second Amendment includes: 1) legitimacy of floating exchange rates, that is member countries are free to choose their own exchange rate system (freely floating, managed float, pegged to a currency or a group of currencies or SDR, but not gold); 2) the IMF will exercise surveillance over the exchange rate policies and formulate specific policies to guide member countries; 3) the IMF may reintroduce a system of adjustable peg by an 85 percent majority (however, a member may remain without par value), and the United States can veto; 4) downgrade the monetary role of gold (gold will no longer be used for international transactions); 5) designate the SDR as the principal reserve asset in the international monetary system.

<sup>14</sup> Gregory Chin, "Debating Macro-Imbalances and Global Currency", in A.F. Cooper and D. Schwanen, "Flashpoints for the Pittsburgh Summit," CIGI Special G20 Report (September 2009), pp. 54-55.

<sup>15</sup> Zhang Ming, "Adjustment of Global International Payment Disequilibrium and Its Impact on the Chinese Economy," *Shijie jingji yu zhengzhi* [World Economy and Politics] Vol. 7 (2007), pp. 75-80.

<sup>16</sup> Benjamin Cohen notes that bilateral checks on US currency policy do exist in the existing currency system, namely that China and other surplus countries could choose to stop buying dollars and let their currencies appreciate, as this would put pressure on the United States to live within its means as well as bring about a reduction in dollar reserves. Personal correspondence, December 2009.

<sup>17</sup> The Chinese views on the G7/8 are discussed in detail in Gregory Chin, "China's Evolving G8 Engagement: Complex Interests and Multiple Identities in Global Governance," in Andrew F. Cooper and Agata Antkiewicz (eds.), *Emerging Powers in Global Governance: Lessons from the Heiligendamm Process* (Waterloo: Wilfred Laurier University Press, 2008), pp. 83-115.

<sup>18</sup> Wang Jianye, "China's Intellectual Contribution," (March 25, 2009).

<sup>19</sup> Yu Yongding, "Avoiding the Dollar Trap and Promoting International Monetary System Reform", *Caijing* [Caijing Magazine] Vol. 8 (2009), <<http://magazine.caijing.com.cn/2009-04-12/110140479.html>>. Scholars in international political economy, namely Susan Strange, Benjamin Cohen and Eric Helleiner, have long noted that the greater depth and convenience of the US Treasury bill market, and the depth, liquidity, openness and growth-orientation of US financial markets, backed by secure property rights and a trustworthy legal infrastructure, have given an enduring advantage to the greenback. See: Susan Strange, "The Persistent Myth of Lost Hege-  
mony," *International Organization*, Vol. 41, No.4 (1987), pp. 551-574; Eric Helleiner, "Money and Influence: Japanese Power in the International Monetary and Financial System", *Millennium: Journal of International Studies* Vol. 18, No. 3 (December 1989), pp. 343-358; Benjamin Cohen, "Global Currency Rivalry: Can the Euro Ever Challenge the Dollar?" *Journal of Common Market Studies* Vol. 41, No. 4 (2003), pp. 575-595.

<sup>20</sup> Wang Jianye, "China Intellectual Contribution," (March 25, 2009).

<sup>21</sup> Li Ruogu, "Global Financial Crisis and Restructuring the International Monetary System", in Marl Uzan (ed.), *Building and International Financial and Monetary System for the 21st Century*:

*Agenda for Reform* (New York: Reinventing Bretton Woods Foundation, 2009), p.219 (emphasis added).

<sup>22</sup> Currently, the SDR basket consists only of the dollar, the euro, the pound, and the yen.

<sup>23</sup> Interview with senior representative of the Hong Kong Monetary Authority: Hong Kong, August 2009.

<sup>24</sup> Zhang Ming, "China Says No to the Dollar Standard," *Nanfang zhoumo* [Southern Weekly], April 9 2009, <<http://www.infzm.com/content/26664>>; Yi Gang's statement is quoted in Liu Jie and Zhang Chongfang, "Yuan's Role Presents Dilemma for Chinese Policymakers," *Xinhua*, (April 8, 2009), <[http://news.xinhuanet.com/english/2009-04/08/content\\_11150610.htm](http://news.xinhuanet.com/english/2009-04/08/content_11150610.htm)>.

<sup>25</sup> Zhang Ming, "China Says No to the Dollar Standard," (April 2009).

<sup>26</sup> IMF members could then use their foreign exchange reserves (specifically their US dollar holdings) to purchase the SDR-denominated funds.

<sup>27</sup> Zhang Ming, "China Says No to the Dollar Standard," (April 2009).

<sup>28</sup> We thank Eric Helleiner for this point. The share among IMF members of the general SDR allocation is based on each country's existing IMF quota. In the increased general SDR allocation to US\$250 billion on August 28, 2009, low-income countries merely account for just over \$18 billion, while emerging market economies and developing countries as a group only account for almost \$100 billion of the total. See: "Special Drawing Rights: Questions and Answers", *International Monetary Fund* (online: <https://www.imf.org/external/np/exr/faq/sdrallocaqs.htm>)

<sup>29</sup> Lu Qianjin, "A More Diversified International Monetary System is Needed to Restructure the International Financial Order," *Zhongguo zhengquan bao* [China Securities News], Nov. 7 2009, <[http://ifb.cass.cn/show\\_news.asp?id=20159](http://ifb.cass.cn/show_news.asp?id=20159)>.

<sup>30</sup> S. Rabinovitch, "China Officials Call for Displacing Dollar, In Time" (July 6, 2009).

<sup>31</sup> Huang Xiaopeng, "In Reforming the International Monetary and Financial System, China Should Be Pragmatic," *Zhongquan shibao* [Securities Times], Oct. 31, 2009, <[http://ifb.cass.cn/show\\_news.asp?id=20074](http://ifb.cass.cn/show_news.asp?id=20074)>. *Securities Times* is the only official newspaper in China that is authorized by the China Securities Regulatory Commission to release news on Chinese listed companies. It mainly reports on China's securities markets, and is read primarily by decision-makers in financial institutions, stockbrokers, institutional and individual investors, domestic and foreign-invested companies.

<sup>32</sup> See: Wang Qishan, "The G20 Must Look Beyond the Needs of the Top 20," *The Times* (London), March 29, 2009, <[http://www.timesonline.co.uk/tol/comment/columnists/guest\\_contributors/article5982824.ece](http://www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article5982824.ece)>. Wang Qishan is the Chinese lead on the economic side of the US-China Strategic and Economic Dialogue.

<sup>33</sup> Pieter Bottelier, "China, the Financial Crisis, and Sino-American Relations," *Asia Policy* Vol. 9, (January 2010), pp. 121-129.

<sup>34</sup> "President Obama's News Conference" (transcript), *The New York Times* (March 24, 2009, online).

<sup>35</sup> Rebecca Christie, "Geithner Remarks on IMF Roil Foreign Exchange Market," *Bloomberg* (online), March 26, 2009, <[www.bloomberg.com/apps/news?sid=aSZTgpL48TZQ&pid=20601068](http://www.bloomberg.com/apps/news?sid=aSZTgpL48TZQ&pid=20601068)>.

<sup>36</sup> On the same day, the dollar was down 0.22 percent at \$1.3553 per euro as of 12:13 p.m. in Tokyo.

<sup>37</sup> *Ibid.*

<sup>38</sup> Liu Jie and Zhang Chongfang, "Yuan's Role Presents Dilemma," (April 8, 2009).

<sup>39</sup> Simon Rabinovitch and Matt Falloon, "China Demands Currency Reform, France Backs Debate," *Reuters*, July 9, 2009, ([www.reuters.com/article/idUSPEK20673520090709](http://www.reuters.com/article/idUSPEK20673520090709)); Gregory Chin, "Global Finance: China Let's Cat Out of the Currency Bag," *Global Development* (Berlin), August 2009, pp.18-19, <[http://www.global-perspectives.info/download/2009/pdf/Whither\\_](http://www.global-perspectives.info/download/2009/pdf/Whither_)

G8\_and\_G5\_July\_2009.pdf>.

<sup>40</sup> Benjamin J. Cohen, "The Future of Reserve Currencies," *Finance and Development* Vol. 46, No. 3 (September 2009), p. 28.

<sup>41</sup> The "BRICS" refers to the diplomatic grouping of Brazil, Russia, India, China and South Africa that has emerged over the past four years.

<sup>42</sup> Huang Yiping, "Evolution of the International Monetary System and Renminbi Internationalization," *Guoji Jingji Pinglun* [International Economic Review], No. 3, 2009, pp. 20-25.

<sup>43</sup> Gregory Chin, "Global Finance: China Lets the Cat Out of the Currency Bag," *Global Perspectives* (Berlin), July 2009, pp. 18-19.

<sup>44</sup> We thank Simon Rabinovitch for highlighting this point.

<sup>45</sup> Similarly, as part of their longer-term developmental re-strategizing, even before the onset of 2008-09 crisis, Chinese researchers had already begun to turn their attention to how to increase domestic consumption, in order to facilitate a shift from the China's heavily reliance on export-oriented growth, i.e. to shift China's growth model. See: Wang Yong, "Domestic Demand and Continued Reform: China's Search for a New Model," *Global Asia* Vol. 3, No. 4 (Winter 2008), <[http://globalasia.org/pdf/issue8/v3n4\\_Yong.pdf](http://globalasia.org/pdf/issue8/v3n4_Yong.pdf)>.

<sup>46</sup> "Nations Eye Stable Reserve System," *BBC News* (online), June 16 2008, <<http://news.bbc.co.uk/2/hi/business/8102216.stm>>. Brendan Kelly, "Brazil, Russia, India and China (the BRICs), Throw Down the Gauntlet on Monetary Reform," *East Asia Forum* (online), June 28 2009, <[www.eastasiaforum.org/2009/06/28/brazil-russia-india-and-china-the-brics-throw-down-the-gauntlet-on-monetary-system-reform/](http://www.eastasiaforum.org/2009/06/28/brazil-russia-india-and-china-the-brics-throw-down-the-gauntlet-on-monetary-system-reform/)>. Huang Qing, "Dollar and Future of BRIC May Dominate Summer," *People's Daily*, June 16, 2009, <<http://english.peopledaily.com.cn/90001/90780/91343/6679535.html>>.

<sup>47</sup> The idea is that China and other monetary authorities could convert their dollars into Special Drawing Rights through off-market transactions that would have no effect on exchange rates or any other economic variable. See: C. Fred Bergsten, "We Risk Calamity Unless China Safely Unloads Unwanted Dollars," *Financial Times*, April 22, 2009, <[www.iie.com/publications/opeds/oped.cfm?ResearchID=1191](http://www.iie.com/publications/opeds/oped.cfm?ResearchID=1191)>.

<sup>48</sup> Eric Helleiner, "The IMF and the SDR: What to Make of China's Proposal," in Bessma Momani and Eric Santor (eds.), *The Future of the International Monetary Fund*, Special Report of the Centre for International Governance Innovation, August 2009, p. 18-21.

<sup>49</sup> Jeffrey Sachs, "Sustainable Developments: Rethinking the Global Money Supply," *Scientific America Magazine*, June 2009, <[www.scientificamerican.com/article.cfm?id=rethink-the-global-money-supply](http://www.scientificamerican.com/article.cfm?id=rethink-the-global-money-supply)>. C. F. Bergsten, "We Risk Calamity," (April 22, 2009). Joseph Stiglitz's support for Governor Zhou's call for a global reserve currency is cited in Andrew Baston, "China Takes Aim at Dollar," *New York Times*, March 24, 2009.

<sup>50</sup> Huang Yiping, "Evolution of the International Monetary System," (2009).

<sup>51</sup> This is discussed in Yu Zhonghua, "To Check the Hegemony of the US Dollar by Cultivating a Multi-Polar Balance," *Guoji jinrong bao* [International Financial News], Aug. 6 2009, <[http://ifb.cass.cn/show\\_news.asp?id=18591](http://ifb.cass.cn/show_news.asp?id=18591)>. Yu Zhonghua is a professor and deputy director of the Institute of International Finance at Liaoning University.

<sup>52</sup> Benjamin Cohen has identified increasing "privatized authority", the role of non-state actors in deciding such fundamental matters as currency values or access to credit, as one of the key trends in the evolution of the international monetary system. See: Benjamin Cohen, "The International Monetary System: Diffusion and Ambiguity," *International Affairs*, Vol. 84, No. 3, 2008, pp. 455-470.

<sup>53</sup> Zhang Ming, "China's New International Financial Strategy amid the Global Financial Crisis," *China & World Economy* Vol. 17, No. 5, September-October 2009, p. 33.

<sup>54</sup> Lu Qianjin, "A More Diversified International Monetary System," (November 2009).

<sup>55</sup> Huang Xiaopeng, "In Reforming the International Monetary and Financial System," (October 31, 2009).

<sup>56</sup> We thank Paul Bowles for this point.

<sup>57</sup> On a more fragmented currency system and the need for coordinated leadership for stability: Benjamin J. Cohen, "Toward a Leaderless Currency System," in Eric Helleiner and Jonathan Kirshner (eds.), *The Future of the Dollar* (Ithaca: Cornell University Press, 2009), pp. 156-158.

<sup>58</sup> For example see: Yu Zhonghua, "To Check the Hegemony of the US Dollar by Cultivating a Multi-Polar Balance," (August 2009); Huang Xiaopeng, "In Reforming the International Monetary and Financial System," (October 2009).

<sup>59</sup> Yin Jianfeng's views are cited in Liu Jie and Zhang Chongfang, "Yuan's Role Presents Dilemma," (April 8, 2009).

# The Limits of Partnership: China, NATO and the Afghan War

*Richard Weitz*

**M**ultiple paradoxes pervade China's policies toward Afghanistan. The leaders of the People's Republic of China (PRC) perceive unprecedented commercial opportunities in Afghanistan, but lack the means to pursue them without the support of other national governments that might prefer to limit China's influence there. While PRC policymakers oppose a long-term Western military presence in China's backyard, they fear that an abrupt NATO withdrawal from Afghanistan would endanger important Chinese commercial and security interests. In addition, Beijing fears that the growing strength of Islamist extremists in Afghanistan is increasing the terrorist threat to China itself as well as its close ally Pakistan. But PRC leaders worry that supporting the anti-Taliban coalition militarily would make China a more likely target for terrorism and alienate Beijing from Afghanistan's future government. Given these contradictions, the Obama administration will find it extremely difficult to establish a major strategic partnership with Beijing in Afghanistan.

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## STRIKING HARD AT TERRORISM

From 1949 through the mid-1970s, the PRC developed modestly good relations with the government of Afghanistan. These ties withered after a pro-Soviet group gained power in Kabul and sided with Moscow against Beijing. Relations collapsed when the Soviet Union sent tens of thousands of combat troops in late 1979 to help the beleaguered Afghan government suppress a popular uprising against its un-Islamic Marxist-Leninist policies. The Soviet intervention converted Afghanistan into yet another Cold War battlefield. The Chinese government played an active if low-key role in assisting the anti-Soviet insurgency by providing weapons and training in collaboration with the United States and Pakistan, where most of the guerrillas were based. The PRC refused to recognize the government that Moscow established in Kabul and did not normalize relations with Afghanistan until 1992, after the insurgents captured the capital and established a new “Islamic State of Afghanistan.” When the guerrilla factions resumed fighting among themselves for power, the PRC withdrew its diplomatic staff from Kabul in February 1993 and did not reopen its embassy until February 2002.<sup>1</sup>

The emergence of the Taliban during the mid-1990s as the dominant political-military faction in Afghanistan alarmed Chinese officials. Elements of the Taliban had ties with Islamic extremist groups advocating independence for China’s Xinjiang Uyghur Autonomous Region, an area constituting one-sixth of China that borders Pakistan and several Central Asian countries, including Afghanistan. Of the region’s twenty million inhabitants, approximately half are non-Han Chinese Muslims with ethnic and religious links to neighboring Turkic populations in Central Asia—though this percentage has been steadily falling due to Beijing’s policy of encouraging Han migration into Xinjiang to strengthen its integration with the rest of China.<sup>2</sup> Xinjiang experienced assassinations, bombings and other endemic violence during the early 1990s from some Uyghur nationalists who sought to establish an “East Turkestan Islamic Republic” by attacking Chinese government targets and Chinese civilians.<sup>3</sup> The PRC authorities accused the Taliban of providing training to “at least hundreds of East Turkestan terrorists” in Afghanistan.<sup>4</sup> The Beijing government reacted with a “strike hard” campaign against suspected Uyghur terrorists. Through the new institution of the Shanghai Cooperation Organization, created in 2001, and various bilateral mechanisms, the PRC also provided assistance to Central Asian governments fighting Taliban-linked terrorists that could also threaten China. These countermeasures have failed to end ethnic unrest in Xinjiang and tensions between Hans and Uyghurs have continued to escalate.

Starting in early 2008, Chinese officials accused Uyghur groups, supposedly linked with al-Qaeda and the Dalai Lama, of various plots to disrupt the 2008 Summer Olympics.<sup>5</sup> On April 10, the Chinese authorities announced they had exposed a plot by Muslim terrorists to kidnap foreigners and carry out suicide attacks in Beijing during the Olympics. In a news conference, a PRC Ministry of Public Security official stated that the authorities had detained 45 suspects involved in two terrorist groups

planning to use firearms, explosives and other weapons to disrupt the Games. In addition to the aforementioned alleged Olympic plots, PRC officials claimed that on March 7, Islamist terrorists had attempted to crash an airliner flying from Urumqi to Beijing. Wang Lequan, Xinjiang's Communist Party chief, stated that the act was "instigated and conducted by East Turkestan separatists from abroad." He warned that "terrorists, saboteurs and secessionists are to be battered resolutely, no matter what ethnic group they are from."<sup>6</sup> The number of publicly announced arrests in Xinjiang for "endangering state security" also soared in 2008.<sup>7</sup>

The claims that Uyghur terrorists were seeking to disrupt the Olympics, like earlier allegations that supporters of the Dalai Lama were planning to organize suicide attacks during the Games, remain unproven. Some Uyghurs participated in the protest against the Chinese-run torch relay, but PRC security officials have yet to produce convincing evidence of a Uyghur conspiracy to attack the Summer Olympics or to confirm other announced plots. Nonetheless, the July 2009 ethnic riots in Xinjiang—in which some 200 people died and more than 1,600 were injured when Uyghurs and Hans engaged in vicious street battles—have undoubtedly heightened PRC policymakers' concerns about the resurgence of Taliban strength in Afghanistan. Islamist groups cited the incident to depict Beijing as yet another oppressor of Muslims.<sup>8</sup> If the Taliban can regain power in Afghanistan or carve out safe areas for training regional terrorist groups, some of these terrorists could attack Chinese targets.

The PRC's counterterrorist strategy in Xinjiang relates to Beijing's foreign energy and security policies. A prime concern for the Chinese is gaining access to Central Asian energy resources. At present, policymakers in Beijing are uneasy about relying so heavily on vulnerable Persian Gulf energy sources, which traverse sea lanes that are susceptible to interception by foreign navies. In addition, the Chinese government recognizes that terrorism, military conflicts and other sources of instability in the Middle East could abruptly disrupt Gulf energy exports. Since Chinese efforts to import much additional oil and gas from Russia have proved problematic, Beijing is pushing for the development of land-based oil and gas pipelines that would direct Central Asian energy resources eastward to China. New inland routes would provide more secure energy supplies to China than existing seaborne links. The PRC is beginning to develop direct pipelines with its Central Asian neighbors, especially Kazakhstan. Avoiding political instability in these countries is thus a key concern for Chinese policymakers.

Besides securing access to the region's energy resources, PRC officials also seek to enhance commerce between China's relatively impoverished northwestern regions and their Central Asian neighbors. This consideration applies particularly to restless Xinjiang, since over half the province's income is derived from trade with Central Asian countries.<sup>9</sup> Trade across the PRC's other borders with Central Asia also has been increasing, albeit starting from very low levels. The Chinese government has granted hundreds of millions of dollars in credits to Central Asian countries for the

purchase of Chinese goods. Increased commerce could help promote the economic development of Xinjiang, Tibet and other regions that have lagged behind the PRC's vibrant eastern cities.

### THE OPIUM CRESCENT

Curbing the influx of narcotics from Afghanistan—now the world's largest national opium producer—has become another priority for Beijing. In the past, PRC authorities were most concerned with the opium produced and imported from the Golden Triangle—the mountainous opium-growing area falling within Myanmar, Vietnam, Laos, Thailand and China's Yunnan Province—but this problem has decreased significantly in the past decade.<sup>10</sup> At the same time, the volume of narcotics entering the PRC from the Golden Crescent—a heroin-producing zone that comprises portions of Afghanistan, Iran and Pakistan—has surged.<sup>11</sup> In addition, the Badakhshan region, which is situated in both Afghanistan and Tajikistan, has seen a major increase in heroin production facilities.<sup>12</sup> In 2004, the Chinese government estimated that as much as 20 percent of the heroin available in the PRC originated from Afghanistan; that figure is likely higher today.<sup>13</sup>

The increasing volume of narcotics entering the PRC has coincided with growing Chinese demand for illicit drugs: in 2008, narcotics use in China climbed by 9.2 percent.<sup>14</sup> Xinjiang and other regions have reported a sharp rise in narcotics consumption and drug-related cases of HIV/AIDS due to the influx of Afghan drugs.<sup>15</sup> While reliable statistics are difficult to come by, the *South China Morning Post* has suggested that Xinjiang has overtaken Yunnan and the Golden Triangle as the main entry point for narcotics into China.<sup>16</sup> According to another Chinese media source, Xinjiang's local police prosecuted 1,563 drug-related cases, arrested almost 2,000 suspects, and seized 144 kilograms of imported heroin transported from Pakistan and Afghanistan in 2008.<sup>17</sup>

In response to local officials' pleas for help, President Hu Jintao reportedly circulated an internal memo calling on security forces in Xinjiang to combat narcotics trafficking more aggressively.<sup>18</sup> PRC officials are well aware of the link between illegal drug sales and terrorist financing. Reports of Afghan Taliban commanders using revenues from the opium trade to purchase weapons, fund training and buy support are widespread.<sup>19</sup> Other Islamist terrorist movements active in Central Asia also finance activities through narcotics trafficking.<sup>20</sup> The resulting increase in the strength of the Islamist terrorist groups risks empowering Uyghur militants and threatens China's newly acquired economic interests in Afghanistan.

### BELJING'S ECONOMIC SURGE

From 1994 to 2002, when Afghanistan was swept up in its post-Soviet civil war, Chinese-Afghan trade ranged between US\$17-39 million annually. Despite the end of the Taliban regime following the American invasion in late 2001, and the establishment of new Afghan government institutions under President Hamid Karzai,



Chinese-Afghan economic ties remained modest until only recently. The Chinese government provided Afghanistan with some financial assistance in support of various reconstruction projects, such as \$10 million for an irrigation complex at Parwan and a hospital in Kabul.<sup>21</sup> In May 2003, the two governments signed an Economic and Technical Cooperation Agreement, which provided \$15 million to the Afghan government in Chinese grants.<sup>22</sup> Chinese and Afghan businesses also engaged in some commerce. For example, China's ZTE and Huawei Telecommunications upgraded analog telephone lines used by 200,000 Afghan subscribers to digital ones.<sup>23</sup> Even so, the PRC Ministry of Commerce reports that China's trade with Afghanistan was still below \$50 million annually in 2007 and 2008.<sup>24</sup> Political ties also remained modest. It was only in 2006 that Karzai visited Beijing to meet with the Chinese President Hu Jintao. On that occasion, the two presidents signed a bilateral treaty of friendship and cooperation.<sup>25</sup>

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*Xinjiang may have overtaken Yunnan and the Golden Triangle as the main entry point for narcotics into China.*

Yet after the Afghan government opened its energy, mineral and raw material sectors to foreign investment in 2008, China rapidly became one of Afghanistan's largest foreign investors with state-owned China Metallurgical Group (MCC)'s surprise purchase of a controlling stake in what could be the world's largest copper field at Aynak. According to the Afghanistan and British Geological Surveys, the copper deposit there contains 240 million tons of material with a high grade of 2.3 percent copper in the central portion of the deposit.<sup>26</sup> Whatever its ultimate recoverable holdings, the project is the largest foreign direct investment and private business venture deal in Afghanistan's history. The mine is scheduled to begin operations in six years and employ about 10,000 people as well as create other jobs indirectly (such as workers providing services to the miners). A contract provision mandates that the project employ only Afghans after 7 years except for some Chinese administrators. Moreover, Aynak operations are expected to provide \$400 million in royalties, more than half of Afghanistan's current state budget.<sup>27</sup> The project will also bring further Chinese investment to Afghanistan's infrastructure: China will need to build a copper smelter and a power plant at the site, a coal mine and groundwater system to support these operations, and a transportation network to bring equipment and other supplies to the mining site as well as to export the extracted products to China. The Chinese bid for the mines included the cost of building a 400-megawatt, coal-fired power plant and Afghanistan's first railroad, which will convey freight from western China through Tajikistan to the site and from northern Afghanistan to the country's southeastern border with Pakistan.<sup>28</sup>

Neither MCC nor the Chinese government will reimburse the US forces who guard the site as well as the projected routes for the road and railway as part of their Afghanistan defense mission.<sup>29</sup> After the deal was signed, Taliban insurgents increased their operations in the area, prompting more than 2,000 troops from the US Army 10<sup>th</sup> Mountain Division to enter the region in response.<sup>30</sup> American and NATO forces

protect other foreign investments and critical infrastructure from insurgent attacks, but China's prominent economic presence, unaccompanied by PRC soldiers deployed to Afghanistan to assist in the country's defense, is likely to place this uneven security relationship under further strain. Suspicions also exist that not all the hoped-for benefits will materialize, as well as concerns about what will become of the investment and locality after the lease expires.

Nonetheless, Chinese and other foreign investors presumably desire to acquire additional natural resources in Afghanistan if the security situation permits.<sup>31</sup> In this sense, the success of the Chinese venture in Aynak could serve as a catalyst for additional foreign investment, particularly in the former state-owned companies that the Afghan government is now privatizing. Afghanistan is thought to have unexplored or underdeveloped reserves of oil, natural gas, iron, gold, copper and other raw materials that China imports in abundance.<sup>32</sup> Exploiting these resources and transporting them to China will require building transportation and other networks. According to the Chinese government, in 2008 Chinese firms were engaged in 33 infrastructure projects (such as road construction) in Afghanistan, valued at almost half a billion dollars, in addition to the Aynak copper investment.<sup>33</sup> By acquiring these goods from Afghanistan, the PRC could further diversify its source of imports away from more distant world regions, whose products are transported to China along lengthy ocean shipping routes vulnerable to pirates, foreign navies and other interruptions. Importing materials from Afghanistan also allows Beijing to pursue a more geographically balanced process of internal economic development. China's western provinces need readily available natural resources in order to develop. Furthermore, trade with Afghanistan would accelerate the economic growth of the sensitive region of Xinjiang, which borders Afghanistan as well as Pakistan and the Central Asian republics—countries that have also seen considerable Chinese direct investment in recent years.<sup>34</sup>

## NO CRUSADES

In addition to assisting with economic reconstruction, PRC officials have offered general support for the Afghan government's efforts to fight the Taliban and drug trafficking. In a speech to the Paris International Conference in Support of Afghanistan in June 2008, Chinese Foreign Minister Yang Jiechi stated that the PRC "would continue to enhance cooperation with Afghanistan on law enforcement and intelligence sharing and take an active part in the international efforts to set up an anti-drug security belt" and that "capacity building and personnel training have always been the focus in China's assistance to Afghanistan."<sup>35</sup> Similarly, State Councilor Tang Jiaxuan has affirmed that, since peace and stability in Afghanistan are in the interest of China as well as of the rest of the world, the PRC is prepared "to strengthen cooperation with Afghanistan on non-traditional security issues and support Afghanistan to play an active role in regional affairs."<sup>36</sup> Yet China's security ties with Afghanistan remain much less developed than with many other Central and South

Asian governments. Rather, its role in Afghanistan resembles Beijing's policies in Iraq, which have focused on investing in the Iraqi energy sector while shunning any major security role.

Chinese policymakers seem ambiguous about the US and NATO role in both Afghanistan and Iraq. They certainly do not want Islamist extremists to triumph there, since they could then use these territories, especially Afghanistan, to spread extremism to the PRC. Chinese officials also have traditionally avoided challenging the United States on core security issues—and the Obama administration has clearly identified the Afghan theater as one of them. Having the Americans take the lead in fighting Islamist insurgents in Afghanistan and elsewhere also relieves China of having to fight them directly. PRC policymakers prefer that the United States and its allies bear the burden of countering radical Islamist movements outside of China since they have already become alarmed at how Islamist extremists are depicting their policies within China, especially Xinjiang, as anti-Muslim. A week after the July 2009 Uyghur-Han riots, a PRC Foreign Ministry spokesperson explained that:

We hope that the Islamic countries and our Muslim brothers could see the truth of July 5 incident in Urumqi, and I believe if they do so, they will surely understand and support China's ethnic and religious policy and the measures adopted to handle the incident. China and the Islamic countries have long been respecting and supporting each other and the Chinese Government and people always firmly support the just cause of the Islamic countries to pursue national independence and safeguard state sovereignty.<sup>37</sup>

In this context, China policymakers would not want to take a lead role in supporting an Afghan military operation that is sometimes characterized as an ethnic or religious conflict, with Islamist extremists denouncing the endeavor as an international anti-Muslim crusade. When discussing proposals that the PRC contribute more to coalition efforts to attack Taliban and al-Qaeda elements in Afghanistan, the director of the Central Asia Research Institute at the Xinjiang Social Science Academy, Pang Zhiping, wondered aloud, "Why would you make yourself the target of global terrorist organizations?"<sup>38</sup> Equally revealing was how the PRC media reacted on January 16, 2010, when two Chinese engineers working on a road-building project in northeast Afghanistan were kidnapped by alleged Taliban members, who demanded a ransom to release them.<sup>39</sup> The press reported that "Chinese analysts said they are perplexed, as they believe that it is not Taliban strategy to challenge China."<sup>40</sup> Beijing seeks good relations with the governments of Muslim-majority countries in order to secure access to their natural resources and their diplomatic support in general. At worst, PRC policymakers prefer to remain "enemy number two" on the terrorists' list of perceived anti-Islamist states.<sup>41</sup> In many cases, China ranks even further down, since Islamist groups also typically confront more immediate local adversaries, such as the national governments of the countries in which they operate. Chinese officials also appreciate that the stalemated wars in Afghanistan and Iraq have served the useful purpose of diverting Washington's attention from the Asia-Pacific region, presenting fewer obstacles to the realization of Beijing's goals there.<sup>42</sup>

Yet while Chinese leaders do not challenge the legitimacy of NATO military operations in Afghanistan, and want the alliance to continue to fight Eurasian narco-terrorism and promote Afghanistan's economic and political reconstruction, they do not support a long-term Western military presence in the country or the Central Asian region.<sup>43</sup> In the past, the lack of formal ties between China and NATO made it difficult for the two parties to discuss regional security cooperation. Relations have remained especially strained after US warplanes bombed the Chinese Embassy in Belgrade during the Kosovo air campaign in May 1999.<sup>44</sup> Unlike the former Soviet

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republics, China does not participate separately in the alliance's Partnership for Peace program, nor does it have a "dialogue partnership" with NATO as Japan does. Although Beijing does discuss proliferation and other security issues with NATO intermittently, this dialogue occurs with the Chinese Foreign Ministry rather than the People's Liberation Army and the other more influential elements of the Chinese defense establishment.<sup>45</sup> A September 2006 editorial in the semi-official *People's Daily* decried what it described as US plans to transform the alliance into a "Global NATO" by endowing it with a large rapid response force capable of worldwide operations. In an indirect expression of Chinese government concerns, the paper said that the alliance's "interference in the affairs of major 'hot spot' regions", such as Afghanistan and Iraq, had already "drawn extensive concern of people worldwide."<sup>46</sup> Although NATO-China relations have improved since then, enough distrust persists to make most Chinese prefer that NATO keep out of neighboring areas. Given these conflicting pressures, China has publicly supported the Afghan government but sought to distance itself from the US-led counterinsurgency campaigns both there and in Iraq, and refrained from endorsing any lengthy Western military presence in the region.

China's limited support for the NATO-US-Afghan counterinsurgency campaign has provoked some irritation among Western observers about China's "free riding" on the back of dead European, American and Afghan soldiers. As long as NATO governments are experiencing difficulties defending the Afghan government against the Taliban, they will pressure Beijing for greater military as well as economic assistance. Following the first US-China Defense Policy Coordination Talks under the Obama administration in February 2009, Deputy Assistant Secretary of Defense for East Asia David Sedney remarked that, "This is an area where we're looking to see more contributions from the international community—and of course ... this means China—to assist in the many, many needs that are in Afghanistan."<sup>47</sup>

This is not to say that some Chinese-American collaboration regarding Afghanistan has not occurred. In April 2009, the US Special Envoy for Afghanistan and Pakistan, Richard Holbrooke, held two days of talks with senior Chinese officials in Beijing, including Foreign Minister Yang Jiechi. Holbrooke declared that, "We came

here to share views on the situation in Afghanistan and Pakistan because we share a common danger, a common challenge and a common goal.”<sup>48</sup> Although less effusive, Chinese Foreign Ministry spokeswoman Jiang Yu observed, “The two sides said they would make efforts to enhance dialogue and cooperation and promote peace, stability and development in South Asia.”<sup>49</sup> Chinese government representatives have held consultations with NATO forces regarding the security of the Aynak copper venture.<sup>50</sup> In the November 2009 US-China Joint Statement issued during President Barack Obama's visit to China, the two governments said that they “support the efforts of Afghanistan and Pakistan to fight terrorism, maintain domestic stability and achieve sustainable economic and social development, and support the improvement and growth of relations between India and Pakistan. The two sides are ready to strengthen communication, dialogue and cooperation on issues related to South Asia and work together to promote peace, stability and development in that region.”<sup>51</sup>

Yet the Chinese government has continued to reject suggestions that it contribute combat forces to the NATO-led International Security Assistance Force seeking to pacify Afghanistan. After British Prime Minister Gordon Brown remarked at a November 2008 meeting of the Council on Foreign Relations in New York that Chinese troops might deploy to Afghanistan in the future, PRC Foreign Ministry spokesperson Qin Gang rapidly dismissed the proposal, observing that, with the exception of non-combat soldiers on traditional UN peacekeeping missions, “China never sends troops abroad.”<sup>52</sup> PRC representatives have since restated this position, and also dismissed inquiries about whether NATO could send supplies, even non-lethal ones such as food and clothing, through Chinese territory to Afghanistan to support the coalition militaries there. In March 2009, NATO's difficulties in supplying its troop contingents in Afghanistan led a US official to remark that the alliance was considering seeking Beijing's help in providing an alternative supply link through western China into Afghanistan. The PRC Ambassador to Germany, Ma Canrong, responded by insisting that Beijing would need more extensive consultations with NATO before offering concrete support.<sup>53</sup>

NATO inquiries have focused on transporting goods through the narrow sliver of territory connecting Afghanistan to China, the remote and mountainous 400 kilometer-long Wakhan Corridor. Created in 1895-96 by Imperial Russia and Great Britain as a buffer between their two empires,<sup>54</sup> the corridor was once an important conduit for trade. Since the early 20<sup>th</sup> century, however, China has closed the border to most commercial traffic. Last year, the PRC did improve the transportation and security infrastructure of the corridor. Local media relate that Chinese Ministry of Defense has been constructing a road along the border to increase the mobility of the frontier forces as well as their supplies. It has also been upgrading the food and communications services available to the border forces.<sup>55</sup> But these efforts seem to be driven more by the desire to strengthen China's commercial role through linking Afghanistan and the PRC while fortifying the country's defense capabilities should the corridor fall under Taliban control.

The Chinese media regularly publish articles warning against allowing NATO governments to deliver supplies through the corridor or providing other military assistance to coalition military forces. For example, one article that appeared in mid-January 2010 described US war leaders as militarily desperate to secure Beijing's assistance to stave off defeat: "they have tried to drag China into its mess in Afghanistan and Pakistan by asking China to allow them to use the Wakhan corridor for its military operations. I hope that [the] Chinese government can detect American intentions in this strategy, and that it is wise enough to deny America's request."<sup>56</sup> The author added that supporting the coalition's failing military intervention would prove most costly to China given its geography: "The US forces and its allies will have to leave Afghanistan and Pakistan sooner or later, but the people of Afghanistan and Pakistan will always be there. China should not alienate them hotheadedly."<sup>57</sup> Chinese Internet users warn of dark US and Indian plots to drag China into an unwinnable war or establish US military bases on Chinese territory near Wakhan in violation of the PRC's national sovereignty.<sup>58</sup> *The People's Daily* purportedly conducted an online survey of the responses given to the question "Should China send troops to Afghanistan?" Although the paper claimed that the voting was divided, it asserted that a majority opposed the idea, citing a variety of reasons. These included damaging "China's peace-loving national image," creating "some unnecessary trouble" by exposing the PRC to global terrorist threats, alarming China's neighbors and giving evidence to those who clamor about the "China threat."<sup>59</sup>

#### PAKISTANI AND SCO CONNECTIONS

China's close ties to Pakistan also help define the PRC's potential role in Afghanistan, though in conflicting ways. Beijing has traditionally considered Pakistan a counterweight to India in South Asia and a significant economic partner, both directly and as a transit partner. On the one hand, the Taliban insurgency in Afghanistan adversely affects Pakistan's stability by contributing to the growth of Islamist militancy within the country, especially in the border regions where Afghan Taliban and other Islamist militants have established extensive logistics support bases. If Pakistani extremists gain control of one of the country's nuclear weapons or materials that they could combine with conventional explosives to make a "dirty bomb," one of their possible targets might be China. The continuing insurgency in Afghanistan also motivates and justifies the Western military presence in the country and strains relations between the Afghan and Pakistani governments, who blame one another for perpetuating the instability along their shared border.

Yet Chinese commentators sometimes blame Western policies for contributing to such extremism, such as pursuing excessively militaristic policies or using inflammatory language. Chinese analysts sometimes concur with their Pakistani colleagues that India is seeking to deepen its presence in Afghanistan to limit Pakistani and Chinese influences there,<sup>60</sup> though little evidence exists that Chinese policymakers accept the views of some Pakistanis that the Afghan Taliban provides a useful in-

strument for constraining India's presence in Afghanistan. (The insurgency is one reason why Afghan officials tend to favor India over Pakistan.) A half-century of close collaboration between Chinese and Pakistani security officials gives Beijing sufficient weight in Islamabad to pressure Pakistan's military and intelligence services to curtail their support for Islamist extremists. In the past, the PRC has used its ties with Pakistan to induce the Pakistani security forces to suppress extremist groups that had attacked Chinese workers in Pakistan or supported Uyghur separatists.<sup>61</sup> But Chinese officials do not want to jeopardize their influence with these important Pakistani actors through excessive pressure, especially when they can again free ride on Washington's efforts.

In addition to using the Shanghai Cooperation Organization (SCO) to counter potential terrorist threats against the PRC, Chinese policymakers have supported initiatives to expand the organization's role regarding Afghanistan. President Hamid Karzai has been a regular guest at SCO summits since 2004 and supported members' efforts to deepen their engagement in Afghanistan.<sup>62</sup> In November 2005, the members established a SCO-Afghan Working Group to provide a coordinating mechanism for the large number of the organization's initiatives concerning that country. At the special March 2009 SCO conference on Afghanistan held in Moscow, PRC Deputy Foreign Minister Wu Dawei announced that China would give \$75 million in economic and military assistance to Afghanistan during the next five years.<sup>63</sup> The convening of the special SCO conference further confirms the unique status that Afghanistan has obtained within the organization. As Russian President Dmitry Medvedev related at the SCO's June 2009 leadership summit in Yekaterinburg, "There was not a single speech at our summit that did not mention Afghanistan."<sup>64</sup>

## THINKING AHEAD

While Western policymakers focus on winning the ground war in Afghanistan, the PRC is patiently developing a leading presence in important Afghan economic sectors. Having kept out of the vicious combat between NATO and Taliban forces as well as the widely publicized disputes between Karzai and Western governments that marked much of 2009, the PRC is well positioned to resume its traditional policy of dealing with whichever government is in power in Kabul.

Until then, China is most likely to assist the counterinsurgency campaigns in Afghanistan by investing in the country's raw material sector and helping to develop transportation, communication and other networks that the Chinese could use to better exploit these natural resources. These contributions should be welcomed. They will help divert Afghans away from illicit commercial activities such as opium production. They will also provide additional revenues for an Afghan government struggling to sustain its enormous security establishment, and whose upkeep costs more than the size of the annual gross domestic product. Although NATO advisors are taking the lead in training the Afghan Army, Chinese institutions could do more to educate Afghans in various technical fields beneficial to the country's economic

recovery. Under the provisions of the Aynak copper deal, 60 Afghan students will study engineering in China starting in 2010.<sup>65</sup> With an academic exchange mechanism in place, this figure could easily be expanded. Even if it does not want to send its own military police to Afghanistan, the PRC has the capability to train Afghan police forces—an area in which the EU has encountered difficulty—though perhaps not in the techniques desired by NATO security sector experts.<sup>66</sup>

In seeking additional Chinese economic assistance for Afghanistan (and Pakistan), however, the United States and its allies should address the concerns of development experts and host nations about how PRC companies operate in poorly governed regimes. Many examples exist in neighboring Pakistan as well as elsewhere of how Chinese extractive firms have degraded the environment, brought in Chinese sub-contractors rather than relied on local managers and provoked violent resistance to their operations by local community activists.<sup>67</sup> While welcoming Chinese investment in Afghanistan, Western governments should strive to induce the PRC to make its aid flows more transparent and condition its assistance on the recipients practicing good domestic governance (e.g. civilian control of the military and intelligence services as well as respect for human rights), responsible economic policies (limited state control and domestic subsidies), adherence to world-class ecological standards such as the Equator Principles and World Bank benchmarks (to which MCC pledged to adhere in its bid), opposition to proliferation and terrorism, and conforming to the other requirements typically imposed by international lending agencies (such as transparency and curbs on corruption).

The main weakness in China's Afghan strategy is its dependence on Western forces to check the Taliban insurgency and establish a secure investment climate in Afghanistan without much security support from Beijing. If NATO efforts fail, the Chinese government could find itself without sufficient means to protect its large and growing economic and geopolitical stake in the country. Beijing's contingency plan is to prepare to reach an agreement with the Taliban should it regain power in Kabul. The PRC would presumably offer diplomatic and economic relations with the new regime if it did not expropriate Chinese investments in Afghanistan or resume exporting jihadi ideology and terrorists into the PRC. But the success of this fallback strategy depends on the Taliban going along. Chinese representatives will find it hard to escape the dilemma that expanding their commercial presence in Afghanistan will make it difficult for the PRC not to become engaged in Afghan affairs in other ways. ☹️



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# Foreign Investment in China's Water Infrastructure: A Strategy for National Security

*Yusha Hu*

**S**trategic water management is crucial to China's social stability, economic prosperity, food security and long-term environmental sustainability. The need for careful planning is undeniable. Northern China, home to 538 million of people, a quarter of the country's grain production and half of its produce, is in an especially poor position in terms of water resources. It ranks in the bottom decile of water availability in the world,<sup>1</sup> with water use further limited by heavy pollution of both surface and ground water. Southern China has a relatively greater and cleaner supply of water per capita, but the situation remains dire throughout the country.<sup>2</sup>

China's response to its water crises sits at the crossroads of multiple areas of national interest. Water scarcity threatens the ability of China's farmers to irrigate their crops, impacting food security as well as social stability, especially in northern China. Water shortages cost the country an estimated RMB 40-60 billion in lost economic output per year.<sup>3</sup> Continued scarcity and uncertainty will affect the willingness of foreign and domestic companies to invest in China, further lowering the

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production of existing facilities, and ultimately affecting the job market. Low water quality and pervasive pollution also constitute an urgent public health hazard. In 2004, it was estimated that 300 million people lacked access to safe drinking water in China.<sup>4</sup> The loss in biodiversity and the ecological damage that has already resulted from China's water pollution and water use make the current situation even more grievous.<sup>5</sup>

A comprehensive and strategic plan to combat China's growing water scarcity and water quality problems must include commitment to a sustained surge in the development of water infrastructure. In this area, the need is particularly acute in the nuts and bolts of China's municipal and industrial water infrastructure, where significant technological and operational advances are required in water and wastewater treatment, distribution and collection. The money and political will that China's government has spent on this effort to date pave the way for new approaches to be effective moving forward. Ultimately, the acceleration of water infrastructure development is important not only for the effective management of water resources, but also because it provides a buttress for China's social and economic security, making it possible for China to achieve its goal of a harmonious society.

#### HIGH AMBITIONS, SLOW RESULTS

China has not ignored its growing water crisis, having created the first version of its National Water Law in 1988.<sup>6</sup> In 2000, with the 10<sup>th</sup> Five-Year Plan, China set ambitious targets for the reduction of Chemical Oxygen Demand (COD), the most prevalent measure of water pollution in China. COD is an indirect measure of the amount of suspended organic matter in a water sample; high organic content can lead to algal blooms and often indicates the presence of water-borne pathogens. China aimed to achieve a 10 percent reduction in the COD level of municipal and industrial wastewater discharge by 2005. This goal has carried over into the 11<sup>th</sup> Five-Year Plan, which promises an additional 10 percent reduction by the end of 2010.<sup>7</sup> China has also greatly expanded the sheer number of regulations that govern water quality and treatment, making treatment standards more stringent for wastewater discharge into the environment. It aims to decrease the amount of wastewater that is discharged without receiving any treatment, raising the rate of municipal wastewater treatment to 70 percent by the end of 2010. To address scarcity, it has set goals for reducing water consumption per unit of GDP 60 percent by 2020 and achieving 20 percent water reuse in water-scarce northern cities.<sup>8</sup>

All of these numbers and reduction targets point toward a tremendous build-up of political momentum. Meeting these goals will require building new infrastructure, upgrading the technology in existing assets so that more stringent levels of treatment can be reached, using new management techniques and replacing equipment to reach greater efficiency in conveyance. However, the 10<sup>th</sup> Five-Year Plan saw extremely limited progress in any of these areas. This can be seen in the introduction of



the 11th Five Year Plan for Environmental Protection, which plainly states that, “the environmental protection targets of the ‘10<sup>th</sup> Five-Year Plan’ period had not been met.” From 2000 to 2005, China achieved a 2.3 percent reduction in COD when aiming for a 10 percent reduction. Similarly, over a quarter of monitored surface water in China was graded unfit for human contact or use, and 62 percent did not meet minimum standards for Grade III quality, a level that is recommended for use only as a “second class” drinking water source.<sup>9</sup>

Clearly the improvement and strategic construction of water infrastructure will not be as straightforward as simply building more infrastructure, upgrading equipment and increasing efficiency. The 10<sup>th</sup> Five Year Plan’s failure to meet policy goals point to the existence of unsurmounted challenges that have kept China from carrying out an effective build-up of infrastructure. Yet, during the present Five-Year Plan period, the situation has slowly been changing. In the area of pollution control, China has seen significant progress, with current government figures placing COD levels 6.61 percent lower than 2005 levels.<sup>10</sup> Differences in policy from the 10<sup>th</sup> to the 11<sup>th</sup> five-year planning periods can shed light on why a more positive trend is emerging. An analysis of the policy impacts to date suggests ways to sustain and accelerate the growth that has led to pollution reduction and scarcity alleviation.

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*Low water tariffs make it impossible for companies to recover capital expenditures.*

#### PRICING FOR STABILITY OR SUSTAINABILITY?

One of the central problems facing the construction and operation of water infrastructure is the price of water that is paid by the end user. In order to make water a universally accessible good, the National Development and Reform Commission (NDRC)’s Price Bureau has traditionally heavily subsidized and regulated the price of water for all users, be they residential, industrial or agricultural. However, low water tariffs often make it impossible for utilities and water companies to recover their capital expenditures through the collection of drinking and wastewater fees. In 2004, it was estimated that only 40 percent of municipal water utilities achieved a positive net income.<sup>11</sup> These economics predictably discourage private sector involvement, causing the burden of investment to fall more heavily on the public sector and, ultimately, taxpayers.

In order to improve this situation and, in the long-term, create incentives for water infrastructure development that are not dependent on political will, the government has recently taken great strides to increase water prices and improve the ability of utilities to achieve cost recovery. Within the sector, water tariffs differ based on use, with industrial users typically subject to higher water prices than municipal or residential users, who pay still more than agricultural users. The reasoning for these differences is largely two-fold. The first consideration is economic: industrial wastewater can be more expensive to treat than municipal wastewater, while water used

for irrigation is neither treated before being added back to the environment, nor requires as much treatment prior to use. The second, and more significant reason is socioeconomic: access to water is a basic right. Therefore, controlling affordability remains central to residential pricing. The problem of affordability is even more acute in the agricultural sector, when small-scale subsistence farmers require large volumes of water for irrigation. Water price reform can then have a direct and dramatic impact on livelihood and, in turn, on levels of social unrest.

Within these limits, water tariffs have still seen dramatic changes in the past decade. In Tianjin, industrial tariffs have almost tripled from 2000-2004, rising from RMB 2.0 per cubic meter to RMB 5.6 per cubic meter. Beijing, which currently has the highest municipal water tariffs in China, has steadily been increasing its rate from RMB 0.30 per cubic meter in 1998 to the current RMB 4.0 per cubic meter, initiating steep increases in the last year due to water shortages. Smaller cities have been following suit: Harbin has recently moved forward with price increases that will raise residential user fees to RMB 3.2 per cubic meter.<sup>12</sup> Tiered price changes, in which the price the user pays is dependent on how much water they use, help to lessen the blow for the poor.<sup>13</sup> The private sector has responded to these policy initiatives enthusiastically, with concrete moves to capture the market in anticipation of tariffs that will allow not only cost recovery, but also a reasonable margin of profit. In 2007, Veolia Water offered RMB 1.7 billion in a bid for joint venture with the Lanzhou Water Supply Group, which represented a RMB 1.4 billion premium over the asset price. High premiums that have recently been paid by Veolia and other firms provide evidence of optimism and interest from the private sector that are a direct result of price reform.<sup>14</sup>

### THE NATIONAL SECURITY DILEMMA

As a result of politically ambitious regulations, industrial and municipal wastewater discharge standards in China are actually extremely high, and comparable with that of developed countries.<sup>15</sup> Accordingly, the level of technology and the operational knowledge and management required to meet these standards is significant. By raising treatment standards and eventually requiring compliance, the government is creating demand for advanced wastewater treatment technologies that improve primary and secondary treatment steps and is setting the stage for widespread use of tertiary technologies such as denitrification and disinfection.<sup>16</sup> Setting and financing goals for increasing the total amount of water that receives treatment will also broaden the market for both conventional and advanced water treatment technologies. This, somewhat paradoxically, creates another challenge for China's water sector development.

The demand created by high standards will need to be met. However, low water prices and state-owned infrastructure have historically kept China from being a leader in water technology, creating a vacuum of domestic expertise. Up until the present, China has responded to this problem of domestic inexperience by intently

fostering local companies and actively protecting them from foreign competition. It has emphatically avoided meeting demand through inviting foreign participation, instead choosing to use various mechanisms to set limits on foreign investment in the water sector. In 2006, the Ministry of Construction estimated foreign financing in the industry to be less than 10 percent. In contrast, foreign players constitute 40 percent of China's automotive market.<sup>17</sup>

This protectionist approach has its roots in the larger issue of national security. Water, because it sits at the nexus of China's social stability, economic growth, food security, public health and other security concerns, is itself a national security issue. The natural implication of such a categorization is that China cannot be dependent on foreign entities for the operation or expansion of its water infrastructure without endangering its national security. Thus, it is of crucial importance that China foster and protect its indigenous water utilities and water technology companies. The steps taken so far to protect and encourage the development of local expertise demonstrate the consequences of this perspective.

Most recently, China has strengthened its policy position through the joint announcement of the National Indigenous Innovation Product Accreditation Program by the Ministry of Science and Technology (MOST), the National Development and Reform Commission (NDRC) and the Ministry of Finance (MOF) in November of 2009. The program gives stated preference to a specific list of accredited enterprises in government purchasing and contracting, an amount that totals 300 billion RMB for water infrastructure in the 11<sup>th</sup> Five-Year Plan.<sup>18</sup> In this recent initiative, accreditation requires a company to be a legal entity in China; the products it offers must also be sourced from domestically owned intellectual property rights and not be subject to any foreign restrictions. These requirements make it extremely difficult for foreign companies to reach the preferred list, dramatically reducing the already limited opportunities available.

Foreign players in China participate in water infrastructure development through a complicated set of joint venture requirements that are designed to limit foreign control while maximizing technology transfer to local firms. They include build-operate-transfer agreements (BOT), public-private-partnerships (PPP), and an array of joint venture (JV) structures that typically require majority ownership to be Chinese.<sup>19</sup> The goal of this system is both to keep the number of foreign participants down and to force those that are playing to help their domestic competitors. The emphasis on technology transfer has been largely successful, with a joint venture between Japanese Toray and China BlueStar signed in 2009, resulting in the first membrane manufacturer in China.<sup>20</sup> Membrane technology is a key component to water and wastewater treatment and seawater desalination, making this milestone especially significant. As a result of years of sustained technology transfer and preferential government policy, domestic players are becoming increasingly viable competitors to global companies that are also seeking to capture a piece of the Chinese market.

## A BALANCED ROLE FOR FOREIGN INVESTMENT

A dynamic balance needs to exist between national security concerns and the benefits that foreign expertise and investment can bring. As the water market evolves, the optimal balance between these two competing forces will naturally shift, moving steadily away from tightly controlled protectionism and more towards a competitive market. China's discharge standards for wastewater are on par with those of developed countries, challenging China to meet international standards within the next few years. For China's domestic companies to meet those goals, they must rise to the level of global players, building an international reputation for high-quality, cost-competitive, and advanced technology. They simply cannot be effective international competitors if they continue to enjoy the advantages of an uneven playing field in the domestic market.

In the long term, China has no choice but to become a global leader in water infrastructure and water technology. The policy imperative is very much backed up by an environmental ultimatum. China's annual water available per capita is among the lowest in the world for a populous country.<sup>21</sup> Climate change threatens to further stress northern China, changing monsoon patterns to decrease precipitation in the parts of China that are already the most water-stressed. Areas of China reach a water per capita comparable to or exceeding that of Israel and Australia, countries that have, out of necessity, become global leaders in water technology. Israel has pioneered emerging technologies such as desalination and highly-efficient drip irrigation, while Australia is a leader in water re-use.<sup>22</sup> The scale and severity of China's problems mean that China will also have to become a leader in water resource management and water technology in order to achieve long-term sustainability.

Currently, China is far from that vision. It remains largely a market for conventional water technologies, with limited demand for emerging technology. China's small and medium-sized cities, totaling 641, struggle to reach 50 percent wastewater treatment and often have leaky distribution or collection systems.<sup>23</sup> Inadequate price signals and only recently enacted tougher standards have stymied growth in more emergent fields. In such a climate, it would be difficult for the marginal benefit of advanced technologies, such as microfiltration or smart metering, to outweigh the gains from basic fixes that increase the amount of wastewater receiving any level of treatment or that address gross inefficiencies. Nonetheless, the level of local innovation needs to increase for China to meet its needs for the long term. The speed at which that innovation occurs will be profoundly influenced by the role that foreign expertise plays in China's market.

The goal of China's policy toward foreign investment should be to maximize the benefit to China's social and economic security. A constructive role for foreign players allows China to: capture and transfer technological, operational and management know-how; lessen the financial burden on the government to back development; and achieve its policy goals without compromising the development of its local water

industry or increasing the financial burden of its citizens. In a Chinese study examining the existing instances where foreign firms are allowed to operate and own water infrastructure in China, no significant difference was found between the price that end-users paid for water from foreign utilities and domestic utilities, suggesting that the impact of a shift in policy will be felt largely by local competitors, but not by the local populace.<sup>24</sup>

At a basic level, the changing market warrants a re-evaluation of existing JV structures, resulting in a simplification, and perhaps an expansion of, the role that foreign partners can play. Joint ventures should very much remain a part of Chinese water policy, as their role in the transfer of knowledge and technology is crucial. Furthermore, as the World Bank recommends in *Stepping Up: Improving the Performance of China's Urban Water Utilities*, foreign-domestic collaboration should be designed to maximize not simply the transfer of technology, but also maximize the transfer of the operational and managerial know-how necessary to run existing infrastructure and oversee new construction.<sup>25</sup> Technology is not enough. A 2004 report by the National Auditing Office stated that 60 out of 78 audited wastewater treatment plants were underutilized due to lack of operating funds or delays in construction of ancillary facilities.<sup>26</sup> Subpar construction, engineering, and procurement often results in facilities that are too large for their market and unreliably connected to receive wastewater from the collection system. Strong incentives that emphasize operations and management are necessary for China to achieve security through the sustainable operation and construction of water infrastructure.

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*Innovation will be profoundly influenced by the role of foreign expertise.*

Another avenue for development is to move away from the traditional model of foreign firms providing technology to local firms. Instead, China should embrace opportunities for the joint design, development and deployment of new technology. Cooperation between local and international firms provides an additional avenue for the development of new technology and invites participation from foreign players who may be wary of existing levels of IP protection. Furthermore, joint innovation helps China establish a global perspective and develop stronger domestic capacity by encouraging the export of Chinese technology and goods, allowing Chinese firms to work together with foreign firms to enter markets in places such as Africa, where China is already investing in infrastructure.<sup>27</sup>

The degree to which China employs outright limits to foreign participation and engages in explicit prioritization of domestic firms must decrease if China is to meet its water policy goals. Recent movement in the opposite direction, with the announcement of the National Indigenous Innovation Product Accreditation Program, will make its already ambitious targets even more difficult to achieve. The current situation necessitates a change in the approach China's government is taking toward the development of water infrastructure. China needs to step away from a protectionist

stance and move toward a more global perspective, understanding that increasing foreign involvement will be a necessary part of strengthening China's national water security. ☹️

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# Choices and Challenges for China's Nuclear Disarmament Policy

*Teng Jianqun*

**L**ast April, during his visit to Prague, US President Barack Obama declared that the United States would take the lead in building a “nuclear-free world”. While the announcement helps mend the United States’ image, it has also brought about a rebirth of the international nuclear disarmament process. Along with the rejuvenation of disarmament talks between the United States and Russia have come questions about how China will respond to this development in nuclear disarmament. If other nuclear powers begin the process of in-depth nuclear disarmament, will China follow suit? It is a question asked repeatedly in recent years by scholars and officials all over the world. Recent reports by the US government and speeches by high-ranking US officials have even suggested that the United States should put much more effort into persuading China to join a pattern of nuclear disarmament talks or negotiations, similar to US-Soviet diplomacy during the Cold War era.

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The irony is that China is not in the position to “follow” any state in this trend, as it has been at the forefront of the disarmament issue for several decades. Looking at what President Obama called for in Prague, much of the content echoes ideas put forth by Chinese Communist Party leaders over a half-century ago. For example, in 1964 China proposed a ban on the first use of nuclear weapons and set forth a path toward total global disarmament. While Obama’s ideas are not original, he wrapped them in new packaging before presenting them to the international community, and thus they made greater reverberations than at any previous time. This instance of Obama “going against the wind” was beneficial to the international security situation, the recent adjustment of relations among great powers and to each country’s efforts to mitigate the threats they face from nuclear terrorism.

The question is, as a forerunner of the disarmament movement, does China need to recapture the moral flag that Obama has snatched away? As it appears now, China will not wrestle with the United States for the limelight because Beijing has its own strategic considerations. The thoroughness, justice and morality of China’s nuclear disarmament policy is universally recognized and its policies such as the no-first-use of nuclear weapons, no use of nuclear weapons against non-nuclear weapon states and nuclear-free zones all far exceed President Obama’s call for a nuclear-free world. China’s position in the realm of moral and just nuclear disarmament is much higher than the United States’ in this regard. As compared with Obama’s initiative, China’s decades of insisting on complete prohibition and thorough destruction of nuclear weapons has been a moral flag in the process of international arms control and disarmament.

#### BEIJING’S ROADMAP TO NUCLEAR DISARMAMENT

To explore China’s current stance on nuclear disarmament, we must start at its source. From its 1949 founding until the 1960s, China’s nuclear policy was primarily influenced by Soviet policy, its own socialist ideology and Marxist-Leninist perceptions of war and peace. Under this logic, only the accumulation of nuclear weapons could dissuade other countries from attacking. Yet when the relationship between the two communist countries began to crack, China adjusted its positions on both its nuclear policy and nuclear disarmament policy to reflect the changed international situation. On Oct. 16, 1964, after having successfully completed its first nuclear test, China reiterated its stance regarding the complete prohibition and thorough destruction of all nuclear weapons, declared that it would never be the first to use nuclear weapons at any time or under any circumstances and made a call for an international conference to discuss the complete prohibition and eventual elimination of nuclear weapons.<sup>1</sup>

On the road to nuclear disarmament, China proposed that the first step would be agreements banning the use of nuclear weapons.<sup>2</sup> This basic principle of “complete prohibition” followed by the “thorough destruction” of nuclear weapons has continued to serve as the foundation of China’s nuclear policy to this day.<sup>3</sup>

In 1978, at the first conference of the Special UN General Assembly on Disarmament, the Chinese representative pointed out that, "Disarmament must begin with the militaries of the two superpowers. This is one of the current principles of disarmament and is also one of the main standards for judging whether disarmament is progressing." China put forth several preliminary steps for the United States and the Soviet Union: pledge not to use nuclear weapons, stop the arms race and disarm in stages, to name a few.<sup>4</sup> If the United States and the Soviet Union could make great progress in nuclear disarmament, along with the reduction of their conventional forces, China proposed that other countries could then follow their lead.<sup>5</sup>

Since reform and opening, China has increasingly participated in international nuclear disarmament and anti-proliferation processes. In March 1993 China entered into the Non-Proliferation Treaty (NPT) and in September 1996 China signed on to the Comprehensive Nuclear Test Ban Treaty (CTBT). In May 2004 China was also admitted as a new member into the Nuclear Suppliers Group, which seeks to curb proliferation through guidelines for nuclear-related exports. Meanwhile, the Chinese government endorsed a substantial body of laws and regulations to control its indigenous nuclear industry.

After over 50 years of application, China's nuclear disarmament policy has proven to be thorough, fair and morally just. With regard to thoroughness, China requests nuclear-armed states to legislate at an international level the complete prohibition of nuclear weapons, with a "no-first-use" pledge as a necessary pre-condition for progress. It is fair because China has insisted that relying only on great powers and bilateral agreements to resolve the nuclear disarmament issue is unacceptable, since it often leads to acts of intimidation towards weaker countries. Instead, China advocates the equal and universal participation of all concerned countries to nuclear disarmament negotiations. Rational disarmament levels should be reached through dialogue and cooperation among all nations rather than power politics and double standards. Finally, China's policy is morally just because it has actually been applied for many decades. In the face of significant pressure, China has maintained a no-first-use commitment and the promise not to attack non-nuclear weapon states with nuclear weapons. Moreover, China itself has stated its willingness to start its own disarmament as soon as the United States and Russia have fairly reduced their nuclear armaments to a lower level.

#### A NEW DIRECTION FOR CHINA'S NUCLEAR DISARMAMENT POLICY?

At the summit meeting of the UN Security Council last September, President Hu Jintao gave a clear-cut response to questions about China's position on disarmament: "When conditions are ripe, the other nuclear-armed countries should enter into a course of multilateral disarmament talks. In order to bring about complete and thorough nuclear disarmament, the international community should, at a suitable point in time, formulate a feasible long-term plan with separate stages, including the establishment of a "Treaty on the Complete prohibition of Nuclear Weapons." Of course, "other countries" includes China itself.

While President Hu's statement leaves no doubt as to China's commitment to a nuclear-free world, there are still a number of questions relevant to the country's nuclear disarmament policy in the future. In light of the US disarmament proposal, should Beijing persist with its old position or make a fresh start? Should China proceed with new promises and its own in-depth nuclear disarmament? Should it actively follow along, or should it quietly observe developments in the major of nuclear

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*It is the United States  
that has the greatest  
impact on nuclear issues.*

weapon states and then react? China needs to seriously consider all these questions, especially because, following substantial reduction of nuclear warheads and their delivery systems made by the United States and Russia with their nuclear disarmament, any step taken by China on nuclear issues will reverberate in other countries. From the perspective of establishing an image as a great responsible power and upholding international security and regional stability, China should make a serious and comprehensive assessment of its current nuclear disarmament policy.

The nuclear disarmament policy established by China's first generation of leaders originated from their deep understanding of these weapons and how they touched upon national security. These leaders analyzed the use of nuclear weapons in the context of their Marxist philosophies on war and peace and concluded that nuclear weapons and their delivery systems were neither all-powerful nor guarantors of victory. Since the 1940s China has regarded the prohibition and elimination of nuclear weapons as the duty of the international community, and its own development of such weapons has been guided at least by two principles: first, nuclear weapons are a last resort and serve only to dissuade attack and blackmail from other nuclear nations; second, since such weapons have hardly been used in war, a minimum stockpile of them is a much more rational and economical choice for China.

Currently there has been a profound change in the international security environment as the United States and Russia are moving towards large reductions of their nuclear weapons, and medium-sized nuclear-armed states are also considering decreases. In this context, China's nuclear disarmament policy will be adjusted slightly in form rather than content. However, in the foreseeable future, China could not completely abandon its long-held positions on the "complete prohibition" and "thorough destruction" of nuclear weapons.

#### FOLLOW THE LEADER?

While China has been a positive role model on nuclear issues for several decades, it is the United States that has the greatest impact on the evolution of the international arms control and disarmament process. Its actions can be felt around the globe. When the Bush administration adopted a unilateral arms control policy and abandoned traditional control and disarmament measures, the international process stalled for nearly a decade. Conversely, since President Obama took office, the tone has been changed, giving some hope for the progress in nuclear disarmament.

But as the Obama administration outlines its plans for nuclear disarmament, should China be eager to follow along?

China's position on disarmament will be determined by its strategic considerations such as its ability to deter foreign attacks and the necessity of closely guarding the exact extent of its military capabilities. China's current nuclear modernization is first and foremost for guaranteeing the safety, survivability and reliability of nuclear weapons, and for guaranteeing that its own deterrent force is not weakened in the face of external threats such as the United States' missile defense program. Furthermore, the policy of hiding capabilities and biding time has long been a guiding principle in China's strategy. China will not compete for credit with the United States in a new campaign for global disarmament. On the contrary, China will quietly wait and see, and will respond at the appropriate time. China is more concerned with actions than with words, and this is precisely the reason why both Chinese officials and scholars reacted with indifference to the US proposition of a nuclear-free world.

In the 30 years since reform and opening, China has actively participated in international arms control and disarmament, signed nearly all treaties and conventions on arms control and disarmament, and entered into all anti-proliferation mechanisms. Compared with the pre-reform and opening period, China's nuclear disarmament policy now places more importance on moral considerations. Holding high the moral flag of nuclear disarmament is not only important as a declaration of China's position; it is a key component of constructing strategic stability with other countries, especially the United States. Currently US attention is focused on Russia, but as the two countries make bilateral progress the United States will certainly pay more attention to China's nuclear disarmament policy and measures. The United States and China both have moral requirements in this perspective; nuclear disarmament measures taken by any country will be regarded as important steps to abolish the nuclear threat, and will benefit world peace and regional stability. The moral requirement is also a foundation for the two countries' cooperation in dealing with nuclear threats today.

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*China is more concerned with actions than with words.*

Dispute still exists within China, however, as to how it should approach America's nuclear disarmament policy. For example, in regards to when the Nuclear Test Ban Treaty should take effect, some scholars feel that China should do so before the United States in order to claim the moral high ground. However, others worry that once China ratifies the treaty, China would face a "catch-22" situation since the United States has yet to join. Thus, they feel that only after the United States ratifies the treaty should China begin considering this issue. This debate has not concluded and will certainly continue.

At present there seems to be little need for China to rethink its approach to nuclear disarmament. China's nuclear disarmament policy was formulated after careful consideration by the first generation of China's Communist Party leadership and

has proven to be strategically sound ever since. This policy is based on Marxism's understanding of war and peace, and combines China's national interests with the international security environment. This form of policy does not rely on changes in any one area, but instead describes the line that China should maintain on nuclear disarmament from a macroscopic level. It guarantees the development of China's nuclear forces and that nuclear policy and nuclear disarmament policy will not undergo any large twists and turns. This is not only the most economical nuclear disarmament policy, but also the most effective one. Even though today we face all kinds of changes, China's nuclear disarmament policy will not undergo any fundamental alteration in the foreseeable future. Changes will only come in the form of packaging and not in basic meaning. The reason for this is not that China is complacent and conservative, or that it does not want to strive for new thinking; instead it is because the nuclear disarmament policy formulated by China's first generation of leaders has yet to be surpassed. 🇨🇳

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## NOTES

<sup>1</sup> China felt that the Soviet Union's "suitable recommendations on a number of great international issues such as disarmament, the prohibition of the use of weapons of mass destruction, a stop on nuclear testing, the elimination of military bases on foreign soil and the removal of armed troops from foreign countries, and holding a summit meeting with the heads of state of the great powers all promoted an easing in the global situation.", Premier Zhou Enlai's "Government Work Report" at the Fourth Plenary Conference of the First National People's Congress on June 26, 1957. At a meeting for the 40<sup>th</sup> anniversary of the victory of the Soviet Union's October Revolution in November 1957, Mao Zedong pointed out that, "On the disarmament issue and on the issue of prohibiting the construction, testing and use of weapons of mass destruction, all of the Soviet Union's recommendations represent the common position of each socialist nation while also being in accordance with the interests of the people of the world."

<sup>2</sup> Oct. 16, 1964: "The Chinese government's statement on the success of its first detonation of an atomic bomb and its recommendation that all the world's countries' heads of state meet to discuss the total prohibition and thorough destruction of nuclear weapons."

<sup>3</sup> In July 1963, the United States, England, and the Soviet Union signed a section of a treaty on stopping nuclear tests. On July 31<sup>st</sup>, China released its "announcement on the Chinese government's call for the complete, thorough and firm prohibition and elimination of nuclear weapons, and its call for the a summit meeting of all countries' head of state" which described China's position on completely prohibiting and thoroughly eliminating nuclear weapons. It recommended that, first, all countries declare the complete, thorough, clean and firm prohibition and elimination of nuclear weapons, not to use nuclear weapons, not to send out nuclear weapons, not to bring in nuclear weapons, not to construct nuclear weapons, not to test nuclear weapons, not to stockpile nuclear weapons, to destroy all the world's existing nuclear weapons and the tools used to carry them and to dissolve all existing mechanisms for researching, testing, and producing nuclear weapons. Second, in order to institute the above in steps, the following measures should first be implemented: remove all military bases on foreign soil, remove all nuclear weapons from foreign soil along with the tools used to carry them, create an Asia Pacific nuclear-free zone which includes the United States, the Soviet Union, China and Japan, create a Central Europe nuclear-free zone, create an Africa nuclear-free zone, create a Latin America nuclear-free zone, do not in any way bring out or send in nuclear weapons and the technical data for creating them and stop all nuclear tests. Third, convene a meeting of heads of state to discuss the complete prohibition and thorough destruction of nuclear weapons, the gradual achievement of the complete prohibition and thorough destruction of nuclear weapons, and the adoption of the measures described above.

<sup>4</sup> The full list is as follows: 1) Declare that they will at no time and in no circumstances resort to the threat or use of nuclear weapons against non-nuclear countries and nuclear-free zones; 2) Withdraw all their armed forces stationed abroad and undertake not to dispatch forces of any description to other countries; dismantle all their military bases and paramilitary bases on foreign soil and undertake not to seek any new ones; 3) Stop their nuclear and conventional arms race and set out to destroy by stages their nuclear weapons and drastically reduce their conventional weapons; 4) Undertake not to station massive forces or stage military exercises near the borders of other countries, and undertake not to launch military attacks, including surprise attacks, against other countries on any pretext; 5) Undertake not to export weapons to other countries for the purpose of bringing them under control or for fomenting wars or abetting threats of war, <<http://www.nti.org/db/china/engdocs/unga0678.htm>>.

<sup>5</sup> In 1978 at the first meeting of the Special UN General Assembly on disarmament, the Chinese representative pointed out that, "Disarmament must begin with the militaries of the two superpowers. This is one of the current principles of disarmament and is also one of the main

standards for judging whether disarmament is progressing.” China put forth five steps for the United States and the Soviet Union to be the first to institute nuclear disarmament: promise not to first use nuclear weapons, stop the arms race, disarm in stages and others. “After the United States and the Soviet Union make great progress on destroying nuclear weapons and reducing conventional forces, other countries should go along with the United States and the Soviet Union and destroy all nuclear weapons.” The “Government Work Report” of the Second Plenary Congress of the Sixth National People’s Congress in May 1984 also pointed out that “the two superpowers take the lead” was China’s “principled stance” on nuclear disarmament. China felt that “possessing more than 95 percent of the world’s nuclear weapons, the United States and the Soviet Union should first greatly reduce their nuclear weapons; only in this way can other countries take meaningful part in nuclear disarmament.”



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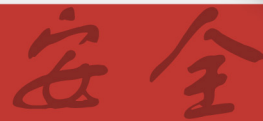
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# Realizing Zero

*Zhai Dequan*

**T**he elimination of nuclear weapons has become a hot topic in China, not only among political elites but also among ordinary citizens. The explosion of interest in this relatively dormant topic was triggered by Chinese President Hu Jintao's solemn promise at the recent UN Security Council Summit on Nuclear Non-Proliferation and Nuclear Disarmament to realize universal peace. For the first time, President Hu proposed that the international community forge two treaties: one regarding the principle of the no-first-use of nuclear weapons and the other concerning the total ban of nuclear weapons. The former would achieve an initial guarantee of world peace while the latter would provide a permanent solution.

Nuclear weapons have become a sword of Damocles hanging over our heads, capable of destroying the planet many times over. As proliferation grows, so does the risk of accidental use—not to mention the numerous non-state actors and terrorist organizations that are trying to obtain nuclear weapons and related technology. Mankind can no longer afford to live under this threat of annihilation. To realize the goal of a world without nuclear weapons, the international community and the leaders of the nuclear powers must first reach consensus and demonstrate a strong political will to commit themselves to the goal of nuclear disarmament. Next, the international community needs to put in place multilateral treaties and enforcement

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mechanisms to realize the commitments of gradually and irreversibly dismantling nuclear weapons. The touchstone for evaluating this path will be the 2010 Non-Proliferation Treaty (NPT) Review Conference. Last fall, support for denuclearization seemed to be building as UN Resolution 1887, which called on all non-members of the NPT to join the treaty, represented an unprecedented leap forward in the international community's commitment to nuclear disarmament. This is the biggest advance in disarmament since the mid-1990s, when the legal and diplomatic basis was laid for enforcing tougher penalties against the nations that cheat on nuclear treaties. Nonetheless, it is just the beginning of a long and winding road toward a nuclear-free world.

In my view, the key to the international community's walk toward "Global Zero" is comprehensive improvement of the international security environment. Just to accomplish the goal of nuclear disarmament would be insufficient in itself. As we try to eliminate the existing nuclear weapons, we need to ask why some countries still want to obtain them. Despite the enormous financial, technological and politi-

#### THE 2010 NPT REVIEW

Every five years since its conception in 1970, a conference is held to review the Nuclear Non-Proliferation Treaty (NPT). The 2000 NPT Review Conference translated the principles and objectives from the 1995 Review Conference into an agenda of 13 practical steps toward disarmament. A number of these measures address the core divergences between most NPT nations and a minority of dissenting nations including the United States. These differences include: the early implementation of the Comprehensive Test Ban Treaty (CTBT); the negotiation of a multilateral, international and effectively verifiable Fissile Material Cutoff Treaty (FMCT); the application of the principle of irreversibility to nuclear disarmament; and the "unequivocal undertaking by nuclear weapon states to accomplish the total elimination of their nuclear arsenals leading to nuclear disarmament." The proviso for a diminishing role of nuclear weapons in security policy is also at issue. This has become a major concern after the George W. Bush administration published its Nuclear Posture Review (NPR)—a strategic plan-

ning document that integrates nuclear weapons into broader aspects of US defense planning—which was submitted to Congress in December 2001.

The May 2010 NPT Review Conference was expected to be a landmark demonstrating the Nuclear Weapon States' commitments to the CTBT, FMCT, Strategic Arms Reduction Treaty (START) and no-first-use, with a practical program of step-by-step nuclear arsenal reduction, lowering nuclear weapons' role in national security planning and nuclear material management. However, some of these developments are now in question. CTBT and FMCT might not be ratified before May of this year. A replacing START could be reached before May, but there may be no agreement among nuclear states on the no-first-use policy and a commitment to lowering the role of nuclear weapons in national security planning. Despite these disagreements on specific disarmament initiatives, the conference participants are expected to reach a consensus on the need to ban nuclear weapons, and this may lead to a new formulation of specific methods.

cal difficulties some governments still attempt to obtain nuclear weapons because they feel that their security, even their survival, is threatened. To reach “Zero” and make “Zero” sustainable, we must deal with the underlying causes of proliferation. As the ancient wisdom in the *Thirty-Six Stratagems* states: “Lifting the soup to stop it from boiling is less effective than extracting the firewood from under the cauldron.” Although we could try to roll back the nuclear programs of Iran and North Korea through sanctions and even the use of force, a wiser solution would be to eliminate the insecurity that is the root of their nuclear obsession—to “extract the firewood”.

This means the international community needs to change the way international relations are conducted by paying more respect to sovereignty and multilateralism, tolerating rather than penalizing differences in worldviews. The international community must reach consensus that a country’s internal problems can only be solved by its own people, and that global problems can only be solved through cooperation, not by stronger nations overpowering weaker ones. Finally, the great powers should realize that there is no absolute security in the world. Absolute security for one country means absolute insecurity for other countries. If these philosophical adjustments are not made, nuclear disarmament cannot reach its ultimate goal.

To realize global nuclear disarmament, the United States, the sole superpower, must take the lead in making deep cuts of its nuclear stockpile. The United States’ demonstration of its sincere will to complete nuclear disarmament will enable other countries to follow suit. This is particularly true in the case of countries such as Russia, which only the United States is qualified to approach for nuclear disarmament negotiations. US leadership in nuclear disarmament would certainly bring with it positive effects on other strategic armaments, such as biological and chemical weapons and their delivery means, and even on some heavy conventional weapons.<sup>1</sup>

While the United States and Russia start the verifiable and irreversible reduction of their nuclear arsenals—matters which are their own affairs—a UN institution (a council or commission for nuclear disarmament) could be formed in order to supervise this process, and other nuclear powers could be invited to take part as observers, so that they could gather experiences relevant to the later reduction of their own nuclear arsenals. The 13 intermediate steps reached by the 2000 NPT Review Conference and the 60 suggestions put forward by the WMD Commission headed by Dr. Hans Blix, former IAEA Secretary-General, could be taken as guiding references.<sup>2</sup>

For now, nuclear powers should first make commitments to the no-first-use principle, and pledge not to threaten the use nuclear weapons against each other, non-nuclear weapon states or nuclear-free zones. They should also speed up the process that will make the Comprehensive Test Ban Treaty (CTBT) and the Fissile Material Cut-off Treaty (FMCT) effective, reduce the role of nuclear weapons in national security planning, and de-target and de-alert nuclear missiles. Research and development of new types of nuclear weapons or other weapons of mass destruction should be halted. Most importantly, as one American scholar rightly put it, the key measure is “learning not to love the bomb.”

Since China conducted its first nuclear test in 1964, it has committed itself to the no-first-use policy and to the goal of total ban of nuclear weapons. As the world finally comes together and follows the vision that China first advocated in 1964, China will surely join in the process of nuclear disarmament once the quality and quantity of major nuclear arsenals are reduced to the Chinese level. 🌐

## NOTES

<sup>1</sup> The gradual disarmament of the nuclear weapons states, with US in the lead, will surely give impetus to the completion of the Biological Weapon Convention, perfection of Chemical Weapon Convention and reduction of their delivery means.

<sup>2</sup> The WMD Commission chaired by Dr. Blix provided 60 recommendations for reducing nuclear weapons, which emphasized the importance of “cooperative disarmament” and warned that “all nuclear weapons are dangerous in whose hands”.

# Overturning the Wall: Building China's Soft Power in Africa

*He Wenping*

**I**t will be remembered that in the prelude to the 2008 Beijing Olympics, the Olympic torch met with violent mobs as it passed through Paris and London. In the aftermath of these disappointing events China's ambassador to Great Britain, Fu Ying, published an article in which she lamented that "the wall that stands between China and the West is thick," and that the two societies' negative impressions of each other are growing at a worrying rate.<sup>1</sup> Despite 30 years of close economic interaction since reform and opening, Western countries and China have continued to disagree on ideology, value systems and political aspirations. A wall continues to separate the East from the West.

Unfortunately for China, through the dominance of Western media and academia, the West's negative perception of Chinese policies has spread to other regions as well, particularly Africa. Fueled by Western influence, negative terms such as "China threat theory" and "new colonialism theory" have entered African vocabularies, building up another high wall in the middle of Sino-African relations. In order to reverse this process and improve its image in both the West and Africa, China should leverage its

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sources of soft power, such as its language, culture and political value systems. This will stand in stark contrast to Africa's past colonial experiences and will earn China respect both there and abroad.

### THE APPEAL OF CHINA'S MODEL

China's dramatic shift from a backwards to an advanced economy in only 30 years has attracted global attention, particularly from African countries looking to escape cycles of poverty. Achieving modernization in a globalized world is challenging for developing countries, and each country is exploring development models. China's experience is relevant to developing countries because it did not copy the Western model, but followed its own national condition in selecting which lessons to emphasize. According to the "Beijing Consensus", China is proceeding carefully with development, emphasizing social stability, effective governance and avoiding the use of "shock therapy" to achieve great leaps forward.<sup>2</sup> Some Western writers have even argued that China's economic development model is suitable for other developing countries. In addition to replacing "the Washington Consensus's" overemphasis on liberalization, the "Beijing Consensus" has begun to change the entire international development structure, starting with economic, social and political aspects.

Although the Chinese government has never formally endorsed the "Beijing Consensus", the concept has fueled a global debate over the path for developing countries. Whether other countries adopt China's model in whole or part, it has been established as a viable alternative to the traditional Western approach. Sharing this message with African countries should be the main content of soft power construction at this stage.

The appeal of China's development model is amplified by the strong foundation of Sino-African relations over the last half-century. Even as the international situation has changed, China's Africa policy has remained consistent and it has never ignored African countries due to changing relations with other great powers. To this day the five principles for developing relations with African and Arabic countries put forth by Premier Zhou Enlai in the 1960s, along with China's eight principles for foreign economic technological aid, are still the important guiding ideology and principles for the development of Sino-African relations.<sup>3</sup>

After the end of the Cold War, as the West tried to force democracy onto Africa by tying aid to democratization, China maintained that choosing a development path and political system are internal matters for African countries. China argued that outside countries should not interfere with domestic affairs or impose their value systems, ideologies or development models on other countries. When working with African countries China has never posed as a great power or sought personal gain, has always respected the sovereignty of aid-receiving countries and has not seen aid as a one-dimensional grant. In addition, no political conditions have been placed on the provision of aid and no special rights have been demanded. The African people have come to recognize China as being completely different from the Western nations that once colonized them.



After the establishment of the “Sino-African Cooperation Forum” in 2000, China offered practical assistance to African countries in the form of debt reduction, reduced tariffs on African products, job training, increased business investment and community investment in schools and hospitals. The first session of the Sino-African summit in 2006 did even more to ensure the establishment of a “comprehensive and cooperative” partnership built on political trust, mutual economic benefit and cultural exchanges. Sino-African cooperation on security issues and China's rise as Africa's second largest trading partner demonstrate the extent of Beijing's hard power (political and economic influence) in Africa. However, the persistence of negative views and misconceptions magnify the fact that China's soft power (the appeal of culture and value systems) in Africa still trails far behind.

### DIFFERENCES IN IDEAS AND VALUE SYSTEMS

Although China's achievements in economic development are recognized throughout the world, its political operating model for sustaining these achievements has met a variety of reactions. The West, according to its innate understanding of “democracy” and “human rights”, tends to put China in the “one-party system” and “non-democratic” column of nations. Thus Westerners have suspicions of African nations' growing affinity for the Chinese-style development.

Through Africa's 20 years of developing multi-party democracy, many of these concerns have been absorbed by Africa. The Western rhetoric on democracy and human rights has already claimed the ideological and moral high ground. The terms “democracy” and “human rights” often appear in government documents and daily speech, and Africans are very proud of the quick development of non-governmental organizations (NGOs) and civil society. The African intelligentsia do not quite understand China's democracy and human rights situation and even feel that China does not pay a proper amount of attention to these issues in Africa. In recent years, following educational exchanges with the United States and Europe and the elections of former opposition leaders in some countries (such as Kenya's Prime Minister Odinga and Ghana's new president, John Mills), many African countries' leaders and governments have drawn closer to the Western conceptualization of democracy and human rights.

For a long time Western countries have held high the flags of “democracy”, “freedom” and “human rights”, occupying the moral high ground of public opinion with much self-congratulation. It will undoubtedly be hard for China to break past this barrier in the short term. However, China's huge advantage is that its path over the past 30 years and all of the economic accomplishments it has achieved demonstrate the effective combination of China's political system and a market economy. Since Africa's democratization has come from “foreign plants” and democracy has been disrupted by election conflicts, social unrest and low efficiency, ruling parties and leaders have sought to learn from China's model. In fact, although the flags of democracy, freedom and human rights are quite brilliant, their content is very general and achieving them is even more difficult.

Instead, if China takes up the banner of poverty reduction, achieving the UN Millennium Development Goals and the mutual enjoyment of the fruits of globalization, its message will speak more directly to Africa's real concerns. This also comes with expectations of such development being effectively reproduced in Africa. Rather than pit itself against the West in the context of democracy, freedom and human rights, China should focus on areas where it can achieve tangible progress: poverty reduction and economic development.

### SETTING THE AGENDA

In a globalized world with complex and rapidly changing geopolitics, China cannot afford to passively wait for the Western media to set the agenda. Rather than replying to the West's constantly changing criticisms and striving to explain that it is neither neo-colonialist nor a threat, China should take the initiative and communicate its intentions directly. This means publicizing what it supports—reducing poverty, South-South cooperation and mutual development—while clearly emphasizing its differences with Western policy.

As the deputy director of the Central Foreign Affairs Office, Qiu Yuanping, described in a speech last year, “internationally, it is often the case that whoever first puts forward a complete and mature theory or concept—even if it is only a wise proposal or motion—will then have the authority to speak out and a guiding influence. This is the power of culture and the power of wisdom.”<sup>4</sup> This recalls a comment made by former British Prime Minister Margaret Thatcher. She once impolitely pointed out that China could never become a superpower because it doesn't have a theory of international influence, as China just exports televisions and not ideas.

What is heartening is that in recent years China has put forth concepts such as “peaceful rise/development” and “harmonious world”, making a contribution to the conduct of international relations. In order to continue to build on the foundation and global influence of these ideas, China should also promote the establishment of agendas such as cooperation between developing countries, stable economic development, green development and social harmony. Through the dissemination of research and information China can lead international opinion toward a focus on bettering quality of life.

### GUIDING PUBLIC OPINION

Any strategy or diplomatic policy needs a main actor to put it into effect. Given the rapid pace of globalization and the increasing plurality of actors within international relations, simply relying on the sole channel of official diplomacy is an insufficient response. As Qiu Yuanping correctly pointed out, “As for public diplomacy, research should be done on how to bring different kinds of non-governmental actors into play, especially regarding the importance of think tanks and the use of many channels to work to respond to the pluralism of actors within international relations.”<sup>5</sup>

In Africa, the development of multi-party democracy since the end of the Cold War has already hastened the birth of an increasingly strong civil society with numerous non-governmental actors. The ability of these groups to guide public opinion, and even government action on foreign affairs, is continually strengthening. In China the development of think tanks and civil society still lags behind. As for think tanks, the quality and number of researchers and their influence on public opinion and government policy have all been on the rise. When compared horizontally with developed countries or with other domestic industries, they are still rather weak. In addition, if just speaking of the establishment of think tanks that research Africa, they could be called “the weak of the weak”. As Britain’s University of Nottingham China Policy Research Institute research fellow Lu Yiyi said, an obvious shortcoming of China’s soft power is its lack of NGOs at the international level and in Africa that could help reduce the negative side effects that have accompanied China’s increased activity in Africa: “On the international stage, China’s NGOs are nowhere to be seen, thus making China lose out on one of soft power’s key instruments and restricting China’s public diplomacy.” In fact, this problem goes beyond NGOs and can also be seen in Chinese scholars’ low level of exposure on the international stage.

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*China’s insufficient public opinion propaganda is at the root of its difficulties in Africa.*

Many of the challenges China has encountered in Africa are related to the influence of the Western media and their love for covering negative news. However, these problems are very closely related to China’s insufficient initiatives in public opinion propaganda. As for public opinion on the Darfur issue, China’s national image already produces a negative effect among the Western masses that has irrationally spread. Even though China has worked hard to influence foreign public opinion, due to factors such as the limited vehicles of propaganda and insufficient English publications, it has still not been able to get its voice out to the Western masses. In its communication with the outside world China has generally felt it was best to “wait for time to explain everything”. The underlying idea was that, if the country’s actions were good, they would prove themselves and did not need to be emphasized by words. In regards to methods, China has also become used to preaching propaganda with insufficient facts and examples, causing Westerners to take a skeptical view of Sino-African relations.

The final point China should keep in mind is that the most important discussion about Sino-African relations is not with the West but with African countries themselves. If the African media praise China, it is better than China promoting itself, and having the African media denounce the West’s fallacies is more convincing than when China does it. On this point there has already been some progress. China has invited delegations of African reporters to visit China and conduct some short-term training on news exchanges. At the same time, the Chinese embassies in Africa should arrange visits for leading reporters from Africa’s large newspapers to visit Chinese enterprises which are engaged in “engineering projects for people’s livelihoods” and other cooperative projects, increasing their knowledge on these matters.

## THE ROOTS OF SOFT POWER

Joseph Nye, who first put forth the idea of soft power, recently wrote that from the perspective of soft power's three sources, culture, value system and policy, the harm to the United State's soft power was mainly due to the Bush administration's unilateral policies.<sup>6</sup> Therefore, for the United States to reclaim its soft power, it simply needs to adjust its policies, and compared with the long-term accumulation and burnishing of culture and value systems, this would not be too difficult. Certainly the change in US administration has once again demonstrated to the world the US democratic system's ability to repair itself, adjust itself and renew itself. China, which lacks the same dominance in culture and value system, faces a comparatively more difficult task.

In an era of globalization and pluralism, the appearance of differences in political and value systems between nations with different histories of development and national conditions is normal. To reach mutual understanding, there must be communication and dialogue regarding these differences, thereby avoiding a negative influence in foreign affairs. When Chinese representatives meet with African representatives, they should affirm China's respect for Africa's democratic processes, and explain that China's "bottom up" model of democratic construction is due to its national circumstances but will reach the same goal as Africa's "from the top down" method.

For the time being, China's communications with Africa should focus on sharing its development experience—particularly in areas of poverty reduction and development of manufacturing industries—and discussing models of governance and reform. Currently, however, China and Africa lack the diplomatic structures to support such a dialogue. Aside from the "Sino-African Cooperative Forum", there are no institutionalized multilateral or bilateral exchange mechanisms. In comparison, China and the United States have more than 60 dialogue mechanisms, which help stabilize and nurture relations between the two countries. Beyond official government talks, there is an urgent need to expand and develop all levels of dialogue, including among business circles, academic circles and social organizations. Without abundant communication and mutual understanding China cannot expect its soft power in Africa to grow.

Compared with hard power, such as military and economic strength, the accumulation of soft power is a long and arduous process. The development of soft power is not only a diplomatic affair, but is also closely related to internal factors such as the degree of free thought, an intellectually diverse academic atmosphere and a focus on the development of individuals within the society (not a "great power, little people" mentality). Without an extensive internal cultivation of these roots of soft power it is impossible to speak of promoting it externally. Only through these adjustments can China break down the wall of misunderstanding separating it from the West and prevent new barriers from rising in its relations with Africa. ☹️

## NOTES

<sup>1</sup> Fu Ying, "Reflecting on the Torch's Pass through London," *Xinhua*, <[http://news.xinhuanet.com/overseas/2008-04/14/content\\_7971600.htm](http://news.xinhuanet.com/overseas/2008-04/14/content_7971600.htm)>.

<sup>2</sup> See Joshua Cooper Ramo, "The Beijing Consensus", British Foreign Policy Research Center, May 11, 2004. The article was translated and published in two parts in China's *Cankao Ziliao* on June 14 and 15, 2004.

<sup>3</sup> China's eight principles for foreign economic technological aid are:

- i. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual.
- ii. In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges.
- iii. China provides economic aid in the form of interest-free or low-interest loans and extends the time limit for repayment when necessary so as to lighten the burden of the recipient countries as far as possible.
- iv. In providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development.
- v. The Chinese Government tries its best to help the recipient countries build projects which require less investment while yielding quicker results, so that the recipient governments may increase their income and accumulate capital.
- vi. The Chinese Government provides the best-quality equipment and material of its own manufacture at international market prices. If the equipment and material provided by the Chinese Government are not up to the agreed specifications and quality, the Chinese Government undertakes to replace them.
- vii. In providing any technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master such technique.
- viii. The experts dispatched by China to help in construction in the recipient countries will have the same standard of living as the experts of the recipient country. The Chinese experts are not allowed to make any special demands or enjoy any special amenities.

<sup>4</sup> Central Foreign Affairs Office Vice-Director Qiu Yuanping, "Guanyu woguo guoji zhanlue yanjiu de ruogan kanfa", Peiking University's International Strategic Research Center's *Guoji zhanlue yanjiu jianbao*, Vol. 21, p. 6, Sept. 25, 2008.

<sup>5</sup> Ibid.

<sup>6</sup> Joseph Nye, "The U.S. Can Reclaim 'Smart Power'," *The Los Angeles Times*, Jan. 23, 2009.

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